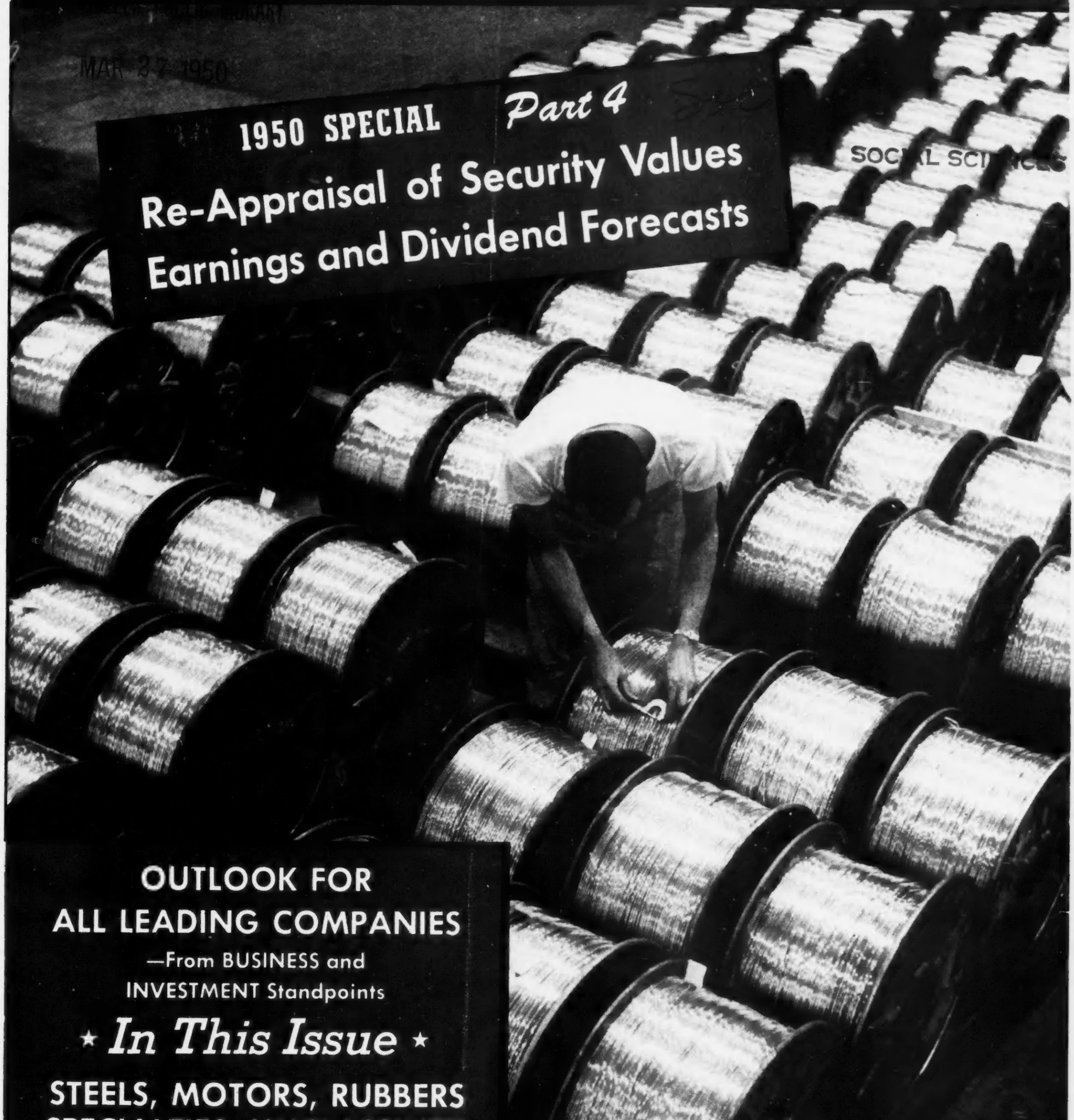
The MAGAZINE of WALL STREET

and BUSINESS ANALYST

MARCH 25, 1950

75 CENTS



1950 SPECIAL *Part 4*

Re-Appraisal of Security Values Earnings and Dividend Forecasts

OUTLOOK FOR ALL LEADING COMPANIES

—From BUSINESS and INVESTMENT Standpoints

⋆ *In This Issue* ⋆

STEELS, MOTORS, RUBBERS SPECIALTIES, UNCLASSIFIED

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST
Member of Audit Bureau of Circulations

Vol. 85, No. 13 March 25, 1950

The Ticker Publishing Company is affiliated by common ownership with the InvestmentManagement Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

Cover Photo by Kaiser Services

SUBSCRIPTION PRICE—$15.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

West Coast REPRESENTATIVE, A. M. Rothenberg Associates, 2412 W. Seventh Street, Los Angeles 5, Calif.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London, E. C. 4 England.

Cable Address — Tickerpub

IN OUR NEXT ISSUE

"HOW FINANCIALLY STRONG IS AMERICAN INDUSTRY?"

Don't miss this revealing story, an eye-opener to the prophets of gloom.

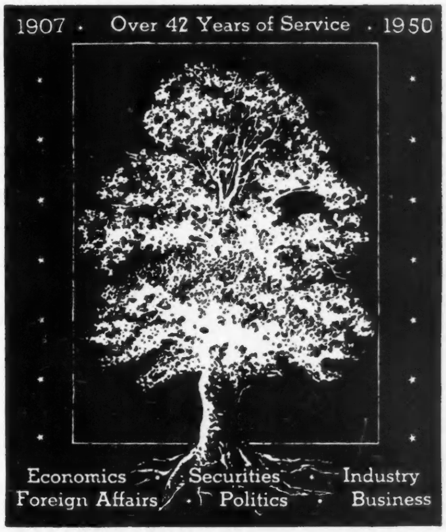
• • •

BREAKING DOWN THE CONSUMER DOLLAR

It tells you how and where the public is spending its money.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

MANAGEMENT AND CONFIDENCE . . . In these days of shift and change, many people are all too prone to attribute undue significance to minor or temporary trends and developments, and ignore the main current. Often enough this leads to false or oblique thinking and engenders uncertainty and instability where none is warranted because of the transient nature of the cause. After all, fundamental changes seldom take place with great rapidity, but gradually — giving time for more considered action and response.

What is true of events in general is also true of your investments.

Management should be the first consideration in appraising the strength of a corporation. A study of the progress made by a great corporation will inevitably show that it was managerial resourcefulness and foresight which enabled it to work out and solve one problem after another.

In fact, a period of trial has usually been an educational period for that kind of management; the experience thus acquired helps it to master other emergencies that may arise. Companies like American Telephone & Telegraph, DuPont, Standard Oil of New Jersey, Gulf Oil, Union Carbon & Carbide — one could cite a great many that grace the top of our industrial roster — have that kind of management. Investors owning shares in these companies can be certain that if these concerns cannot hold their own, our country will be in trouble indeed.

The better the management of our industries, the more assured we can be of our economic future. It is good sometimes to remember that. It should never be lost sight of.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

GENERAL MOTORS REPORTS . . . Speaking of management, those who direct the huge operations of General Motors have no apologies to make in submitting their 1949 report. Fabulous is a good term to describe it. Not just because the net profit of $656 million was the greatest ever realized by an American corporation; records were made in virtually every respect — in dollar volume of sales, in unit production, in payrolls and taxes.

As to taxes, the corporation paid out $580 million to Federal, state and local governments in 1949, a handsome sum that goes far toward supporting the regular activities of these bodies. The overall tax bill was equivalent to more than ten cents out of every dollar the corporation received in sales. And it was $216 million more than the 434,000 shareholders received in dividends. Additionally, sales and excise taxes on products sold by the company accounted for another $299 million. It shows how the consumer takes it doubly on the chin.

The significance of the report, and of GM activities, transcends mere figures, however. Consider what its huge payroll means in terms of employment, direct and indirect, in terms of trade, in terms of supporting other industries. Apart from the hundreds of thousands of workers and employees directly involved, more than 18,000 in-

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-two Years of Service"*—1950

dependent merchants handle the retail distribution of the company's car and truck divisions alone, and over 12,000 business organizations sell materials and services to it. In short, thousands of people and businesses share in the success of this big corporation.

GM is big but it is also efficient. If it weren't, there would have been no such exceptional growth in an industry which ranks among the most competitive. This suggests that GM management must be well above average. Growth and progress do not just happen, especially after a concern has already become large and well established, when too often there is a disposition to let down and take it easy.

GM last year lists over $5 billion spent for expenses and taxes. Not too many years ago, our Federal budget was less than that. Those who fight bigness in business might see therein ammunition for their arguments. But bigness, in this case as in most others, also means efficiency; GM at least has amply proved this. Were efficiency, because of bigness, to be penalized, the country would be the loser.

ANOTHER ROUND OF TARIFF NEGOTIATIONS . . . The Government's decision to renegotiate on a broad scale existing tariff agreements under our reciprocal trade program is a natural step in the search for a solution to the difficult problems facing us in our relations with the world in general and with Western Europe in particular. It is, in fact, an inevitable corollary of our ECA program.

The significance of these negotiations which are to take place later this year at Torquay, Switzerland, must not be underrated. The scope of the talks will be far wider than earlier expected since participating countries will include most, if not all, of the nations represented in the General Agreement on Tariffs and Trade made at Geneva, and others to boot. More importantly, however, it must be appraised against the background of the entire international picture. The end of Marshall Plan aid, set for 1952, already looms into view, and by that time Europe was expected to be able to stand on her own feet economically. But European recovery still has a long way to go, and the problem of balancing her dollar trade seems only a little less acute than before. There is very little hope that Western Europe's dollar deficit can or will be eliminated by 1952.

Similarly, the end of the cold war is hardly in sight; instead, the cold war may warm up considerably, to judge by our latest official pronouncements on the subject. Thus if Europe is to gain enough strength to continue resisting Soviet pressure, we must either continue to subsidize her directly, that is extend Marshall Plan aid in some similar form, or create the conditions which will enable Europe to sell us enough of her goods to earn the dollars needed.

Either alternative is unpleasant; continuation of direct subsidies will sit ill with the taxpayer, and any broad scale lowering of our tariffs may painfully hit American industries in certain fields. Whatever we may ultimately do, and no outright choice between the two alternatives may be made, it will cost us either directly or indirectly. Whatever the cost, it will have to be chalked up to the cold war.

In the circumstances, it would be well to obtain some preliminary idea of just how much would be involved. If, as has been suggested, those of our industries which might be hard hit by tariff concessions are to get some sort of Federal assistance, it may perhaps be as well — from a purely monetary standpoint — to continue direct subsidies to Europe to the extent absolutely needed. In this manner, industrial dislocations and hardships might at least be avoided in our own country. Quite apart from that, the idea of Federal subsidies to some of our industries strikes us as particularly incompatible with the free enterprise system, and a procedure, moreover, which all too easily might spread to other industries under political pressure and otherwise lead to wide repercussions in the economy.

Certainly we should do everything to avoid haphazard decisions such as cutting tariffs with no real hope of improving Europe's dollar position. This would serve little useful purpose and might do more harm than good.

Essentially and, of course, for best results, the entire issue must be treated as it should — as a vital point in our international program which at present revolves around the urgent necessity of stopping Russian aggression and communist penetration.

WHAT NEXT? . . . Having just overcome the ordeal of a protracted coal strike, the nation at large, and especially the business community, is wondering: What next? Ominous strike clouds still hang in the sky, ready to darken the business picture once more.

Negotiations for settlement of the Chrysler strike have gotten nowhere; though the tie-up has lasted over 50 days, both sides remain firm. While the impasse has made for stronger industry resistance to UAW demands, its president Walter Reuther can be expected to fight hard. Not only does he not want to lag behind the achievements of John L. Lewis, but his prestige and that of the CIO itself may hang on the outcome of the forthcoming battle with General Motors, for which the Chrysler strike has become a proving ground. UAW demands will be stiff. The $100 monthly pension goal appears to have been superseded by quests for $125, and a far greater welfare "package" than CIO demanded, and won, in last years' negotiations.

What all this presages is a new round of production-crippling troubles. The telephone strike, too, has not yet been resolved. General Electric and Westinghouse contracts expire in April and these companies may have to deal with three unions, each anxious to outdo the other. It's not a reassuring prospect. Generally, pension demands will be pushed by the unions since it is becoming clear that Congress may remain pretty conservative in enacting any addition to social security pensions. To the extent that this is true, union demands will be upped and pursued more aggressively.

Equally disturbing is Mr. Lewis' seeming "grand strategy" as illustrated by his offer of "mutual aid" to the union involved in the Chrysler strike. True, the offer has been rejected; obviously this bold bid for leadership of all unions is greatly suspect among his rivals. But temporary rebuffs of this sort are not likely to daunt Mr. Lewis; he can be expected to pursue with his usual (*Please turn to page* 704)

As I See It!

BY CHARLES BENEDICT

TRYGVE LIE — RED CHINA — AND MR. ACHESON

Since Mr. Acheson himself is certain that the Russians will not accept his seven-point program he offered as a basis on which peaceful "coexistence" could be achieved and the cold war ended, what are the concrete steps which he intends to take to checkmate Russian aggression? One is entitled to ask this question, particularly since he himself admits that our efforts cannot be merely reactions to the latest moves by the Kremlin. What, for instance, about the question of recognition of Red China?

When Trygve Lie tells us that we must recognize the Chinese Communists or the United Nations will cease to function, we can well ask whether it has ever really functioned or been more than a debating society. Designed to arbitrate differences and maintain the peace between peoples, the United Nations stood helplessly by while shooting was going on in one place after another.

Is it possible that Mr. Lie believes that the United Nations will function better if we add an additional negative State to support the Russian veto? For that is exactly what will happen if we carry out the Communist demand for recognition of Red China!

Mr. Lie was undoubtedly under great pressure to make this proposal, and we must be realistic enough to recognize this truth, and refuse to give the Russians such an overwhelming victory, which would enable them to terrorize Asia and drastically affect our fortunes.

"THE DRAGON TAMER"

Smith in the Lancaster Intelligencer-Journal

Can such dangerous appeasement fit into the type of all-out diplomacy Mr. Acheson is talking about? Has he encouraged Mr. Lie in making this proposal? If so, this would be a sure sign he intends to continue his policy of humiliating retreat, despite his words.

As we well know, Mr. Acheson would have recognized Red China some time ago, but for the Angus Ward incident. In fact, the attitude of our Secretary of State in his dealings with Russia is, on the whole, extremely puzzling. And yet he has recently publicly admitted that we can lose this cold-hot war without firing a shot.

To recognize Communist China in order to support a tottering United Nations is sheer folly. Nor is recognizing the Chinese Communists as the legitimate government soundly based, for the people of China, from the lowliest peasant to the great war lords, are believers in private property — they are not communistically conditioned psychologically.

What sort of reasoning is responsible for Mr. Acheson's evident desire to force the issue? What exactly does he mean by "all-out" diplomacy? And why did he issue the destructive White Paper against Chiang Kai-shek? Was it because he thought it was more important to consistently follow the trend of the Yalta agreement which gave Manchuria to Russia, even though the dangerous victory for the Kremlin meant the destruction of the Pacific Alliance — the counterpart of our Atlantic Pact which Chiang was then working on?

Is it that Mr. Acheson is an idealist who stubbornly defends his dreams against the realities of our relationship with Russia? Or does he believe in the non-violence of Gandhi? But Mr. Acheson lacks the quality of inspirational leadership necessary in either case to stir the country to the proper emotional pitch. Nor can he by mere talk — appeasement — and wishful thinking — beguile the rapacious adventurers in control of Russia away from their goals of world conquest.

I know in the 20s there were Americans all over Europe who, having witnessed the intrigue among French, English and German interests during World War I, were so thoroughly disillusioned that they saw in the Russian "experiment," as it was called, the possibility of a better day for all men — greater security for the poor and the humble. Many Americans in our country were moved by the same deep sympathy for human suffer- (*Please turn to page* 705)

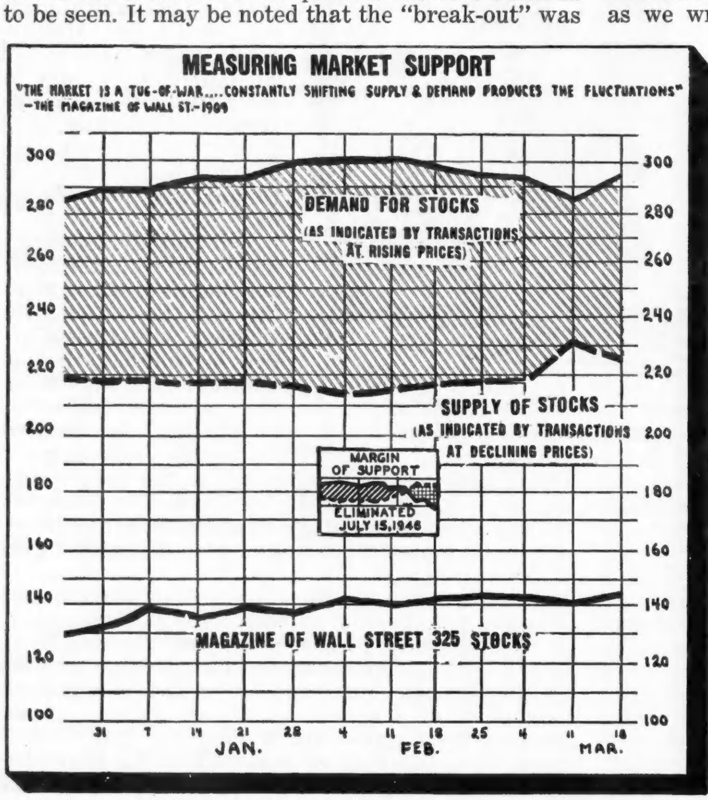
Can The Market Go To 245?

The Dow-Jones industrial average closed last week at a new 1949-1950 high of 208.09 and thus is only some 2% under its 1946 bull-market peak. It continues out of line with the real market, which has not yet fared better than it did on the short-lived recoveries of 1947-1948. There is no change in our conservative, selective policy.

By A. T. MILLER

On March 15, with income tax payments out of the way, the Dow-Jones industrial average broke out of the trading rut which had been maintained since early February, reaching a new high for the 1949-1950 upswing. Despite continuing pronounced selectivity, this implies that an over-all basis, the line of lesser resistance probably is still upward at the present time. We say "probably" because when a new high is set there can never be any certainty that it will not stand as the final high until it is significantly surpassed.

The periodic upward spurts in this market have not heretofore generated much speculative interest. They have not "cleared the road" for a surging forward march. After each hurdle was jumped, another loomed up; and proved about as hard to negotiate as did the previous one. Whether it will be different in the present instance remains to be seen. It may be noted that the "break-out" was accomplished by a single session rise of 2.76 points in the industrial average on volume of about 1,800,000 shares; and that in subsequent trading sessions, up to our press time, the turnover was larger but the added gains were slight. In this limited period, then, the "churning around" looks very much like that which heretofore has slowed or interrupted the general advance for interludes of some weeks duration after each fresh step forward.



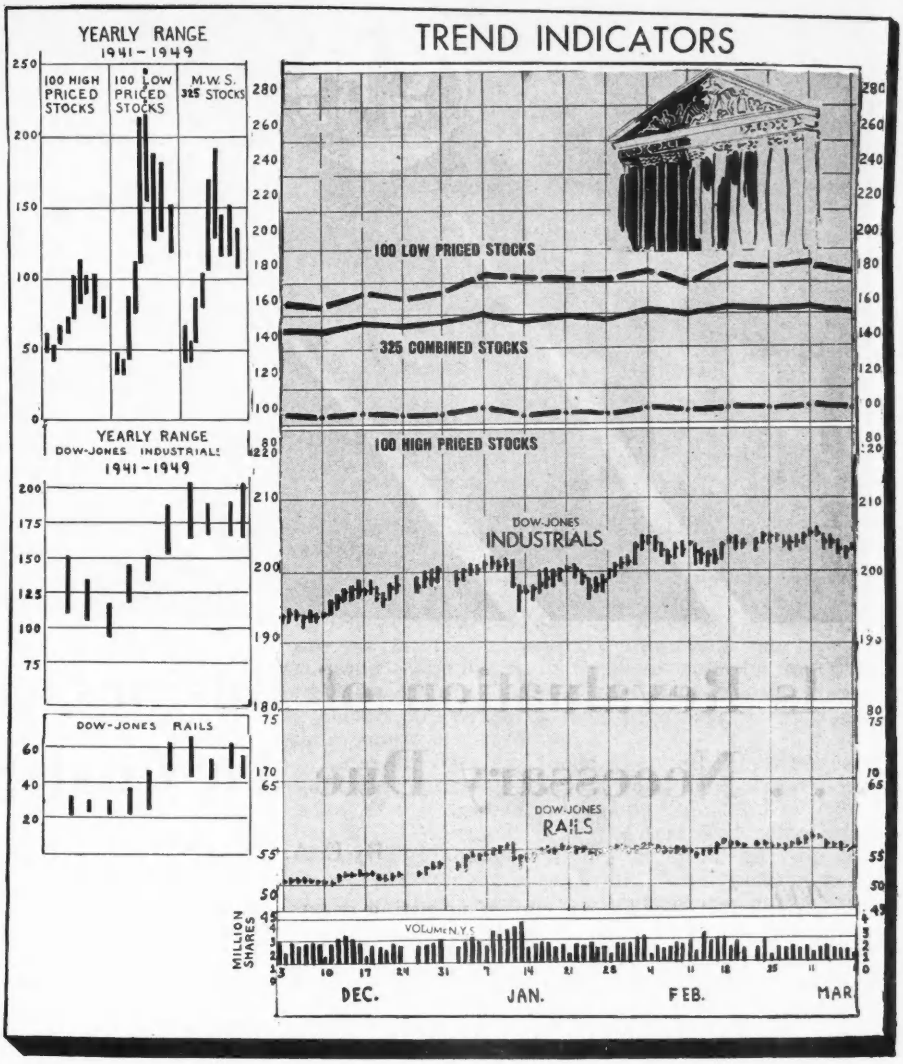
The Detailed Picture

The Dow industrial average ended last week (March 18) at 208.09, or only 4.41 points under its 1946 bull-market peak. The rail average—still regarded by many people as having some barometric significance and capable, therefore, or affecting their market thinking—remains quite sluggish. It stands, as we write, a sizable fraction under its March 4 high of 56.60. The latter was only nominally above the best level reached three months earlier in January; and was not within hailing distance, as market distance for rail stocks must be figured today, of the 1946 high of 68.31. In contrast, it is interesting to note that the Dow utility average has now at last duplicated its 1946 bull-market high.

Generally speaking, the stocks which have fared well in this market have had some real basis for doing so. Throughout, and very notably so, it has been a market of stocks. It has not yet been possible to buy stocks at random, figuring that a revival of general speculative demand would take them higher. To date, it has been far easier to make mistakes in speculative selections than in choices among stocks which have investment attributes. Operating utilities clearly have a superior earnings prospect for a year or more ahead; dividends are reasonably good and likely to "stay put"; and the stocks have sufficient investment flavor to be indirectly aided by the Fair Deal cheap-money policy, which has been reducing prevailing yields on good-grade fixed-income securities for some time. We cite this to illustrate a point, although it inevitably results in some

over-simplification.

Utility action is mainly investment-motivated, and is reasonably typical of the behavior of investment-industrials. Rail action is reasonably close in line with "temperature" of speculation generally. Excepting in a minority of individual situations, such as video stocks, for example, the "temperature" of speculation has risen no more on this upward trend than it did on the short-lived intermediate rallies of 1947 and 1948. For example, our weekly index of 100 low-priced stocks currently stands nearly 2 points under the 1949-1950 high of 170.03, made four weeks ago; and well under its 1948 and 1947 highs of 182.86 and 183.14, respectively. It would take a further rise, from last Saturday's close, of about 47% to put this index back to its 1946 bull-market high of 247.98.



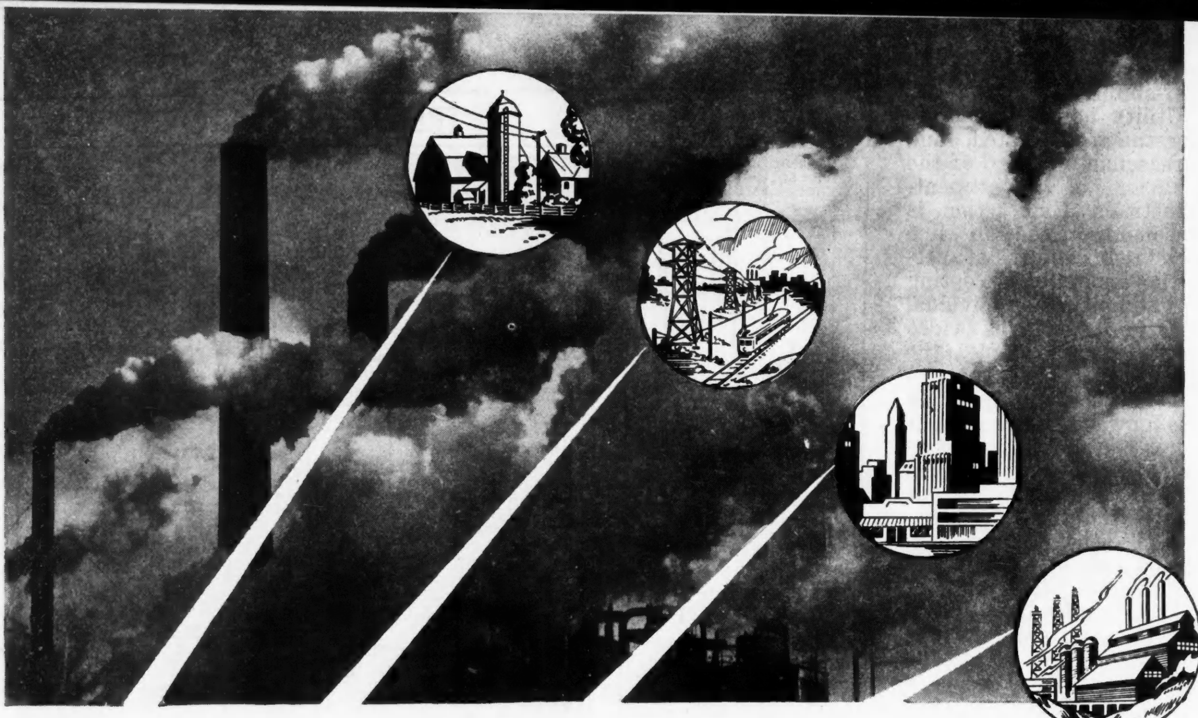
Standing at 143.1, a shade lower than it was a fortnight ago, our composite weekly index of 325 stocks is still materially under the 1948 rally high of 151.9 and the 1947 high of 148.8; and would require a further rise of nearly 34% to equal the 1946 high. Even the index of 100 high-priced stocks, at a new 1949-1950 high of 90.17, is still slightly under its 1948 high and only a fraction above its 1947 trading-range high. It would take a further rise of nearly 25% to equal the 1946 high, comparing with a required rise of slightly over 2% for the Dow industrial average. These wide differences pose some important questions.

Obviously, it would not take a great deal of demand to put the average of the 30 particular stocks in the Dow industrial average above its 1946 high. That demand may or may not develop. It would not make sense to buy stocks here—especially typical, run-of-the-mine stocks whose behavior is accurately reflected in our weekly indexes—unless you were strongly convinced that the average will rise above its 1946 high by a really wide margin; and that the general run of stocks will keep considerably more in pace with Dow-Jones' famous, and not too representative, 30 issues than they have done up to now. Bullish observers, of course, are now pulling all sorts of "logical objectives" out of their hats. Some think that the Dow average "ought to be able" to go to at least 225. Others see a chance it might reach the 245-250 level, which would be a further rise of some 18%.

Of course, there can be no infallible answer; for market action always depends much more on human emotions than on facts. For example, present annual rates of production, national income, corporate earnings and dividends are not greatly different from what they were last June. Yet the Dow average fell to about 162 then, and is about 208 now.

Further Advance Might Take Time

One thing to note is that there is an inexorable law of diminishing returns in protracted market advances. Thus, even if there is some chance for a further rise of 18% in the Dow average, that compares with a rise of over 28% already scored. During the approximately 9 months this uptrend has been maintained, the average monthly rise figures slightly over 5 points in this average; but for the last five months or so, the monthly average gain comes down to 3.2 points, which approximates the pace of the final six months or so prior to the 1946 bull-market high. If you assume that this rate can be maintained, which is surely open to doubt, it would take nearly a year, or until early March, 1951, to put the average to 245. The longer the time factor, the greater is the risk that something might happen in the economy, in politics or foreign relations to shift the prevailing human emotion from today's hope to tomorrow's (*Please turn to page* 705)



Is Revaluation of Business Prospects . . . Necessary Due To Coal Strike? . . .

By E. A. KRAUSS

Major strikes have a way of upsetting everything but the stock market, as the latest coal crisis has shown, though fortunately it ended just before complete industrial paralysis set in. This fortuitous circumstance in part at least was due to the foresight of the steel industry, in stocking up with coal well in advance, rather than the tender mercies of the coal miners or a helpful attitude by Government. Yet it has caused interruptions and dislocations which may well have profound repercussions.

From a broad economic viewpoint, the most important question perhaps is: How will these affect the business timetable? At the turn of the year, the concensus of opinion saw nothing but prosperity ahead in the first half, though the second half was subject to a good deal of conjecture. The question now is whether the strike has put more guessing into the first half, and whether the second half outlook has improved or is becoming even more problematical.

Industrial production, as we know, has been thrown into reverse by strike impacts, necessarily levelling out first half expectancies, and the effect of the strike on corporate earnings will also be felt in various directions. True, a rapid rebound is now underway. Yet it remains to be seen whether the snap-back will have sufficient vitality to carry production back to the January level. Strikes today are essentially deflationary. Shutdowns do result in an accumulation of demands, principally in durable goods, and a rise in activity immediately after their termination. But the loss in purchasing power is not recovered and this is apt to make for slower business later on. The matter of timing is of course important.

As this is written,, a scant two weeks after the ending of the coal tie-up, both coal and steel output is almost back to normal. Yet we can hardly expect that industrial production in March will top February if indeed it can match it. And in February, the FRB production index was down to 178% of the 1935-39 average, off five points from the January recovery high of 183%. The rebound may be more pronounced in April as recovery trends gather force and momentum, but then also industry will begin to feel seasonal trends normally pulling in a downward direction.

To what extent the post-strike snap-back will offset this downpull will importantly determine overall industrial operations in the first half. Though many factors of strength exist, it is a foregone conclusion that it will not be quite as good as it otherwise might have been, because of the irreparable strike loss which has already occurred. But because of strike-accumulated demands, the second half — or at least the third quarter — may benefit. What all this amounts to is that the test of the recovery strength from last summer's low is likely to have once more been postponed.

Levelling Out the Production Curve

This highlights the role of major strikes in tending to level out peaks and valleys in the postwar production curve, and it is by no means the first time. Something similar happened last Autumn

when the steel strike put off the long expected test of the true demand for steel, and thereby of the strength of the economy as a whole. The steel strike markedly lowered industrial production in the second half of 1949, just as the coal strike will have the same effect as far as the first half of this year goes. To offset this, deferred steel demand after the steel strike decidedly improved prospects for the first half, hence the optimistic year-end forecasts which did not take into consideration the possibility of a protracted coal stoppage.

The aftermath of the steel strike was in large measure responsible for the vigorous improvement in industrial production until the coal strike intervened. Something akin to that, it is thought, will now happen after the coal strike. Business is looking forward confidently to maintenance of a fairly high level of activity at least for the next six months. The cloud darkening the second half outlook has lifted somewhat, at the expense of first quarter operations.

How Much Wishful Thinking?

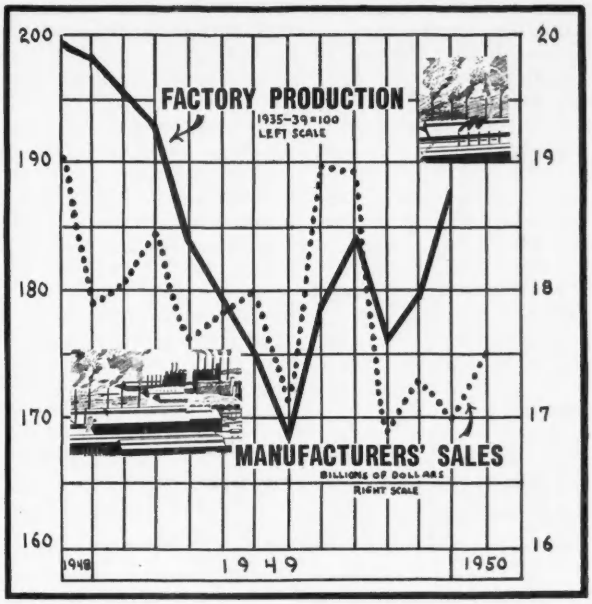
One may remark that in all this there may be at least some degree of wishful thinking though the logic of such reasoning, especially also in view of what happened in the past, cannot be denied. But there may well be a point of diminishing return in the element of strike-deferred demand, so heavily relied upon in this prognosis. Thus perhaps even more important is the question: How much vigor was still left in the postwar boom before the steel strike, and later the coal strike, upset calculations? Are there still latent effects of the steel strike to cope with? And, just how great a factor will the strike-caused loss of income turn out to be?

At this stage, no one can offer exact answers but there are certain facts, and straws in the wind, that deserve attention in weighing definite conclusions. The question has been posed whether the uptrend would have levelled off in February anyhow, regardless of the coal situation. We greatly doubt it. In our view, business would assuredly have been better last month than in January had it not been for the retarding effects of the mounting coal shortage.

One reason is that business statistics for January held elements of considerable strength. Among the encouraging developments was the increase in new orders for machine tools to the highest figure for any month since August 1946. This gives support to predictions that industry, while cutting back on plant expansion, may be replacing and modernizing on at least an equal scale, that the downtrend of business outlays for capital investments is likely to level off rather than continue.

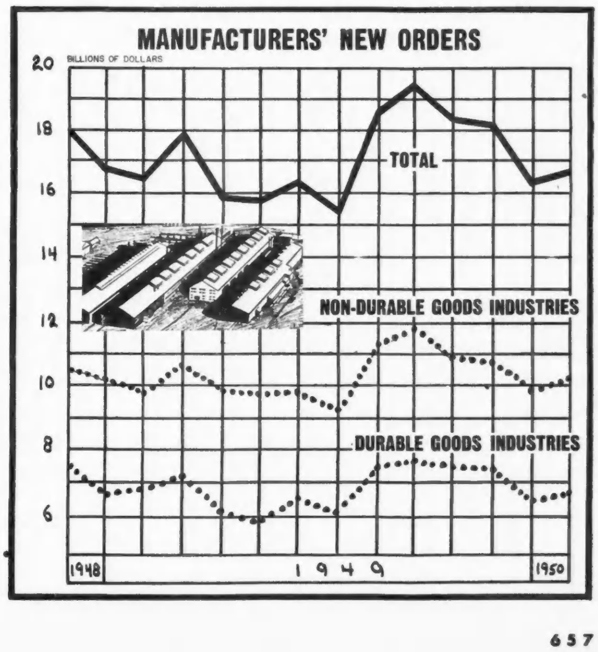
The vital automobile industry came through with extremely high production schedules for the first half of the year. Construction continued very active despite off-season influences. Paper mill operations were running well above a year ago, and new orders for paperboard, which is used in almost all lines of business, have been very large. The volume of trade, seasonally adjusted, remained quite high. Generally, incoming business since the first of the year was satisfactory and many industries had good backlogs of unfilled orders.

These and other data that could be cited warrant the opinion that the recovery from last summer's low has not yet spent itself, and this force will add to general activity during the forthcoming catching-



up period in coal and steel. True, in some lines there are indications that primary production may be outrunning consumption of finished products, and that inventories are being built up. But inventory policies generally are conservative, hence this is not likely to be seriously overdone.

As to the effects of the steel strike, they were certainly beginning to wear off early in February and a test of the vigor of *current* steel demand by April had to be expected. Now the test will come later though it probably will not be quite as long deferred as some observers think. Recent comments in steel quarters paint a rosy outlook for the second half, pointing to encouraging signs for near-capacity business for the full year. But such optimism should be tempered not only by the strong possibility of further strikes in the auto industry, what with General Motors pension negotiations coming up in May



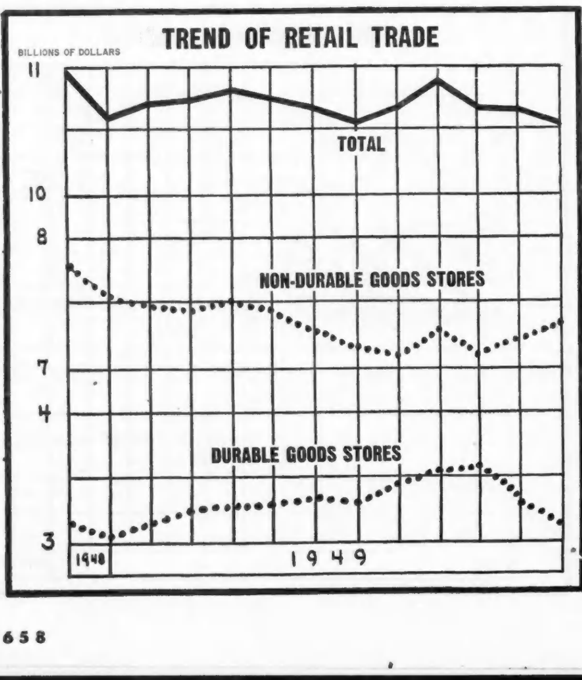
and a marked stiffening of labor demands indicated, but also by the fact that the cutback in steel operations during the coal strike was brief and relatively moderate and the production loss little more than a week's output.

Accumulated demand thus may be less than generally believed, despite current pressure for deliveries; and return to a *current* demand basis may come sooner than expected. Barring further strike upsets, this test in our view could readily come early in the third quarter, particularly if auto production is then falling off, as it likely will. By that time, construction activity, too, may ease off somewhat, especially in the residential field. It is interesting to observe, in connection with the steel outlook, that Chrysler, though shut down by a prolongd strike, has been taking steel steadily without tonnage reduction, thus should be well supplied, probably oversupplied, when the strike ends. General Motors policies, should a strike eventuate, will of course have an important bearing on conditions then.

Loss of Workers' Income

The impact of strike-caused income losses is more difficult to appraise, that is the loss of workers' income. Such income is lost of course, but its loss may be less noticeable than one would normally expect, so long as the nation's income can be propped sufficiently. Consumer spending may be bolstered by whatever wage gains labor can extract from industry, by stepping up defense spending, by public works and liberalized unemployment insurance benefits, and generally by a variety of steps aimed at maintenance of high economic activity.

Such moves may be speeded and intensified by mounting official concern over unemployment which last month exceeded the 4.5 million mark and is likely to grow even in the face of active business, because of our mounting labor force. The number may swell to five or six million later in the year, an unpalatable prospect in an election year, hence the pressure to take counter-steps. Unless the employment gap can be narrowed, pump-priming even in prosperity is apt to expand if only out of political considerations.



It is one reason why we think that the income loss due to strikes will not be too important a factor at this stage. Moreover, when it comes to consumer spending, willingness to spend may be as great a factor as ability to spend, since shortages are filled, demand has lost its urgency and spending has become far more selective and deliberate. In time, this is likely to affect consumer durable goods rather more than soft goods, demand for which is inherently more stable.

Summing up, the immediate business outlook is good, though even in near months when boosts from strike-deferred demand will be felt most, there will be nothing like a uniform performance. Some bumps, some seasonal fluctuations must be expected, including the usual mid-summer let-down and tough going for some lines, such as textiles, even before mid-year. But overall business should remain on a fairly high plateau at least through the second quarter and probably longer. Thereafter we shall again face a test of the strength of our economy, a test that should show whether the recession is a thing of the past or whether the boom is petering out further.

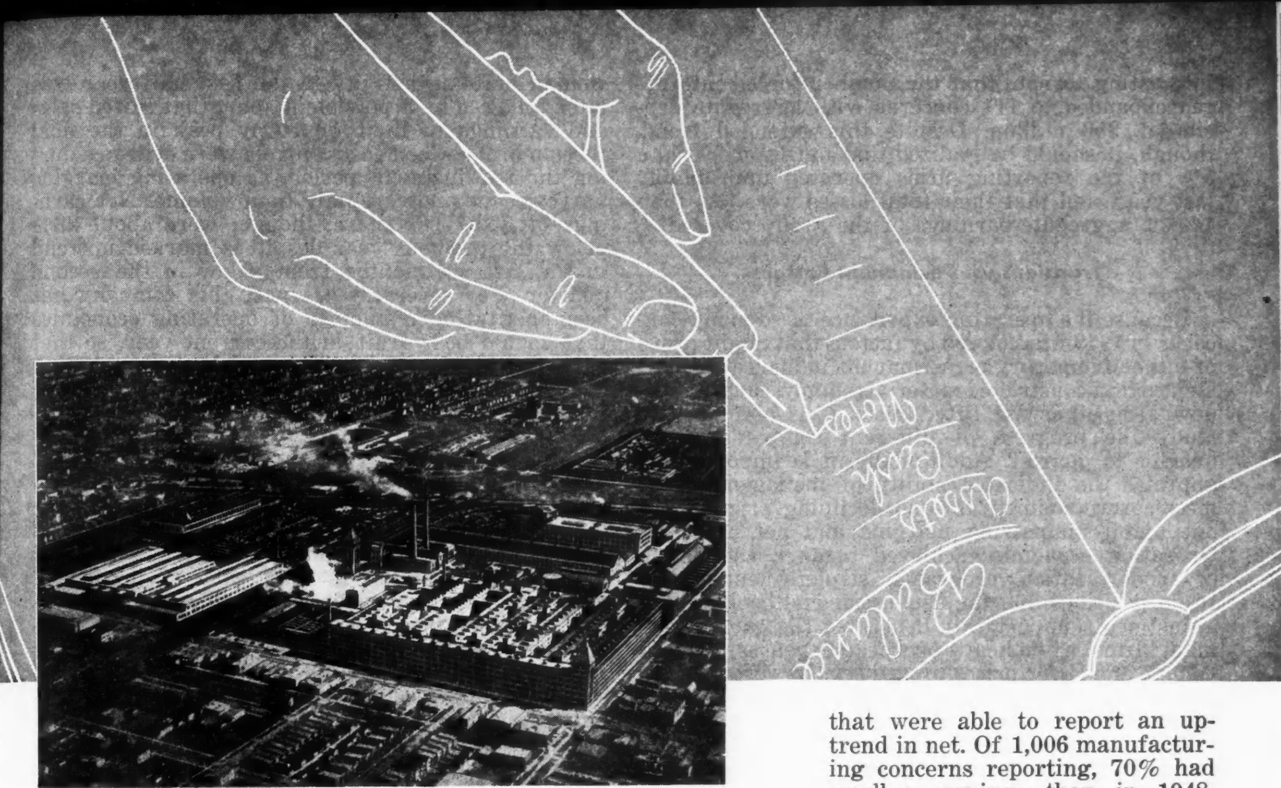
The latest postponement of this test, widely expected late this Spring, conceivably was not entirely unwelcome in Washington. A temporary let-down due to strikes, if followed by a subsequent if partial recovery, is less troublesome politically than a persistent, if gradual downtrend in business, especially if the true character of the latter is difficult to recognize. For there is still the possibility that our recovery since last summer merely marks an interlude in a slow but basic downtrend that may have some way to go yet before bottom is reached.

If so, revaluation of business prospects because of the effects of the coal strike is needed merely for the nearer term. Strikes may stretch out demand temporarily, but they can hardly reverse basic trends. If, however, the recent recovery is a genuine recovery from recession, the latter half of the year will reveal it, unless Government pump-priming again interferes with the natural course of events. It may be, of course, that even such pump-priming may merely slow the ebb tide of business rather than swell the flood tide.

Second Half Should Be Better Than Expected

But as formerly stated, the second half should turn out somewhat better than expected, and barring further and serious strike upsets, the second quarter should show progressive strength. The boom in housing and the automobile industry is then expected to reach its peak. The auto situation in particular has been markedly affected by the coal strike, in that the latter has made it impossible to build up the heavy dealer inventories regarded as desirable for the Spring buying rush. Thus many dealers, instead of having to cope with a glut of cars, haven't quite enough, though this will be remedied in time as output is again getting in high gear. It's not the strike alone, of course, which has brought about this situation, but also the astounding vitality of consumer demand, and the protracted Chrysler strike is likely to prolong it.

Partly because of these factors, but also because most lines of business have already undergone considerable postwar adjust- (*Please turn to page* 704)



What's Behind the . . . .

Figures in Annual Reports

By J. C. CLIFFORD

The over-all industrial picture for 1949 has become more clearly defined now that the majority of leading firms have issued their annual reports. The underlying vigor of the economy in a year marked by abnormal conditions during all four quarters was amply proved in most sectors. Despite the impact of suddenly curtailed demand and production, together with fluctuating prices for both raw materials and finished goods, marked recovery in the latter part of the year enabled industry as a whole to report one of the most successful twelve months on record, though failing to equal the previous boom year, and to look with confidence to 1950.

The varying experience of different groups during the radical readjustment period was marked, and as was to be expected, the return of genuine competition has quickly shown up basic advantages or disadvantages of individual concerns.

On balance, however, results were quite encouraging. A compilation of 2,100 corporate reports by the National City Bank of New York reveals that aggregate net earnings after taxes last year declined about 9%, a surprisingly good showing considering that the comparison was with the abnormally high base of 1948. Total net income of this large group amounted to \$6.3 billion compared with \$6.9 billion the year before. How broadly the decline in net income was spread among some 50 different industries covered in the compilation is shown by the fact that 38 shared in the dip compared with 14 that were able to report an uptrend in net. Of 1,006 manufacturing concerns reporting, 70% had smaller earnings than in 1948, while 30% had increases. Producers of automobiles were foremost in gains, with an uptrend of 31%, followed by the glass industry with 28%, agricultural implements 22%, cement 18%, tobacco products 12% and chemicals 10%, to mention a few.

In contrast, manufacturers of cotton goods experienced a drop of 60% in net last year, with the textile group generally and household appliances each off 47%, lumber and wood products 54%, clothing 38%, rubber goods 27%, drugs and cosmetics 30%, building, heating and plumbing products 28%, meat packing 35%, and machinery 28%, to cite some of the more important downtrends. The steel industry as a whole seems to have experienced a nominal decline of only 1% in net earnings; producers of auto parts reported earnings lower by 2%.

Minority Shows Substantial Profit Gains

It will readily be seen that with such a marked preponderance of leaner earnings by so many forms of enterprise, the relatively good performance of industry as a whole was achieved only by exceptionally good results by a minority reporting substantial profit gains. In a still broader manner this applies to the varying experience of the representative concerns comprising the different groups. In other words, all the percentages we have mentioned were heavily weighted by the outstanding results attained by a relatively few vigorous divisions in the economy, and in turn by the excellent progress of their stronger units.

The foregoing was equally true in the boom year 1948, when 59 companies out of 1,006 reported deficits totalling \$36 million, despite the record level of over-all industrial earnings. But last year it is

interesting to note that the number forced into the red expanded to 111 concerns with aggregate deficits of $53 million. Despite this extended trend, though, it should be realized that hardly more than 5% of the reporting firms operated unprofitably last year, and that their total losses were less than 1% of aggregate earnings of the group covered.

Transient vs. Permanent Factors

Because the operating experience of so many concerns in 1949 was colored by factors that might prove of either temporary or permanent influence, such as strikes that constricted materials supply, caused shutdowns or otherwise lifted costs, it is necessary to study the progress of different companies from quarter to quarter. Additionally, it is important to appraise the indicated ability of managements to meet severe competition and declining prices without unduly impairing margins and net earnings. Operating economies achieved through completion of modernization programs, strongly entrenched trade positions and the usual year-end bookkeeping adjustments importantly benefitted the earnings of many firms, while heavy overhead expenses, reduced volume and lower prices proved serious obstacles for others that previously had found the going easy in a sellers' market.

In order to assist our readers towards an understanding of what transpired in 1949 with a representative group of outstanding concerns, we append statistical data of about 40 selected companies from different industries. Included are data for both 1948 and 1949, embracing net sales, operating margins and net per share. Additionally shown are per share earnings for each of the four quarters of last year. The latter are especially interesting in that they generally reflect the changing conditions through 1949. The statistics, however, fall a long way short of revealing the problems faced, the methods of determining earnings or the company outlook on the road ahead. In consequence, we will now discuss some of these situations in greater detail.

Admiral Corporation

The achievement of Admiral Corporation last year in advancing its sales from $66.7 million in 1948 to $112 million in 1949 was an exceptional performance, particularly as an uptrend was extended from a modest base of $4.6 million ten years earlier. This concern was well situated to benefit from the television boom, manufacturing 400,000 sets in 1949, aside from sizable quantities of electric ranges and refrigerators. With ample supplies of essential materials at reduced costs, and with demand for television sets exceeding supply, the company's operating margins on expanded volume rose to 12.5% compared with 9.2% in 1948.

Net earnings advanced 126% to $4.12 per share as against a volume gain of 68%. As our table shows, earnings rose sharply in the final quarter of 1949, and the trend seems likely to continue in the current year, the result of record backlog orders that suggest a production of 700,000 TV sets in 1950. The stiffest kind of competition, has arisen and is apt to narrow profit margins henceforth.

National Gypsum Company reported volume of $59 million in 1949, off about 12% from the level of 1948. Accounting for more than a third of the shrinkage in sales were price reductions. A recession in building activity in the first half year was later followed by a persistent spurt that raised sales and earnings to their quarterly peak in the final three months. Good cost controls were evidence during the readjustment period, as operating margins narrowed no more rapidly than volume. Net earnings of $2.57 per share, though, were about 28% below the previous year despite a marked uptrend in the last six months from a low in the second quarter. For several years past this company has been instituting a number of operating economies that should bear fruit in the current year, so that with the sales outlook enhanced by assured high level building activity, net earnings should recover considerably from their reduced level of last year.

General Electric Company

Although the diverse output of General Electric Company was priced about 5% lower by the end of 1949, volume of $1.6 million was only 1.2% below the previous year. As in 1948, sales of producers' goods accounted for about 65% of total volume, with 35% representing consumers' items. Unstable market demands adversely affected production schedules and earnings in the second and third quarters, but both sales and profit margins were more favorable in the final quarter, in which the company reported net earnings of $2.01 per share or 46% of the year's total of $4.36. The latter compared with $4.29 in 1948, but the rise was considerably distorted by bookkeeping adjustments at the end of 1949.

In the annual revaluation of inventories, an abnormal amount of $13 million had to be credited to income account. Furthermore, 44% of annual dividends from non-consolidated affiliates were received in the final quarter, swelling income abnormally for that period. The management foresees another good year in 1950, if no major change occurs in basic economic conditions, in which event the company's volume should be comparable to 1949. Looking further ahead, the prediction was made that in spite of any temporary setbacks, the demand for electrical products should expand over the longer term.

Typical of general experience in the oil industry last year was that of Shell Oil Company. While demand for Shell products did not decrease, but in fact expanded, a downtrend in prices for some items and enforced curtailment of crude oil production in Texas resulted in lower volume. 1949 sales of $816 million compared with $830 million in 1948, while net earnings declined to $5.67 a share from $8.27. It should be realized that Shell Oil, in contrast to most of its competitors, charges all intangible development costs against income, and that last year these were unusually large. Total deductions, including the foregoing plus depreciation, depletion and other write-offs, were $17.5 million more last year than in 1949, a sum equal to about $1.32 per share. Hence 1949 earnings as reported were figured on an ultra-conservative basis.

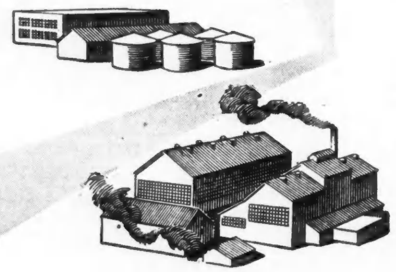
In the past five years, this concern has expended more than $477.5 million for capital investments, against which write-offs have amounted to $309 million; long term debt has increased $32.3 million and retained earnings of $135.7 million furnished the necessary funds for the balance. Now that major outlays for new facilities have been largely completed, working capital needs will lessen but high construction costs will require increased depreciation rates. As a larger (*Please turn to page* 704)

Comparative Sales, Earnings and Operating Margins of Leading Companies

	—Net Sales— —($ million)—		Operating Margin —%—		—Net Per Share—		—Net Per Quarter 1949—			
	1949	1948	1949	1948	1949	1948	1st	2nd	3rd	4th
Admiral Corp.	$112.0	$66.7	12.5%	9.2%	$4.12	$1.82	$ .77	$ .81	$ .74	$1.80
American Brake Shoe	91.7	120.1	6.5 a	6.8	3.22	4.42	1.28	1.04	.52	.38
American Encaustic Tiling	4.5	2.4	27.5	24.3	1.12	.56	.28	.26	.30	.28
American Machine & Metals	11.1	13.1	3.5	8.8	.78	1.82	.08	.19	.24	.27
American Snuff	13.3	12.9	20.6	23.0	3.40	3.77	......	1.81 b	.85	1.14
Armstrong Cork	163.3	173.0	10.1	10.3	6.57	7.54	......	2.80 b	......	3.77 b
Barnsdall Oil	37.4	37.1	62.3	65.7	7.96	6.42	1.74	1.53	1.78	2.91
Beech-Nut Packing	69.0	72.7	9.8	12.2	2.84	3.63	.63	.54	.73	.94
Budd Company	266.6	219.5	9.4	7.2	4.12	2.48	1.04	.95	1.10	1.03
Celanese Corp. of America	171.2	230.3	20.5	28.7	3.19	6.61	.96	.11 d	.74	1.60
Container Corp.	114.7	131.0	12.5	12.7	8.46	10.12	1.89	1.56	2.28	2.73
Doehler-Jarvis	65.0	76.9	10.3 a	17.6	5.41	7.29	1.60	1.51	1.27	1.03
DuPont	1,031.9	977.8	23.7	20.3	4.52	3.28	.91	.90	1.04	1.67
Elliott Company	26.2	27.3	19.6 a	17.7	6.85	7.14	1.99	2.48	2.10	.28
Foster Wheeler	77.4	76.4	8.6	7.1	13.24	11.95	......	5.87 b	......	7.37 b
General Electric	1,613.5	1,632.7	11.7	12.5	4.36	4.29	.93	.69	.73	2.01
Industrial Rayon	49.6	55.0	20.9	36.5	6.01	8.31	1.74	1.51	1.01	1.75
International Business Machines	183.4	161.9	29.2	28.2	12.64	11.21	2.97	3.19	3.23	3.25
International Nickel	182.8	197.0	28.6	32.6	2.08	2.55	.84	.53	.32	.39
Kennecott Copper	246.3	348.1	29.6	42.3	4.45	8.67	......	2.15 b	......	2.30 b
Libby-Owens-Ford Glass	134.2	113.5	27.7	23.6	8.20	5.56	1.52	2.04	2.39	2.25
Link-Belt	88.1	106.0	14.3 a	18.3	9.73	14.37	2.49	2.29	2.60	2.35
Lorillard (P.) Co.	153.5	140.2	7.8	7.1	2.73	2.21	.60	.65	.75	.73
National Biscuit	294.4	296.2	12.3 a	11.8	3.17	3.34	.77	.85	.74	.81
National Dairy Products	897.6	986.4	6.3	4.1	5.26	4.03	......	2.63 b	......	2.63 b
National Gypsum	59.4	68.1	17.4	20.3	2.57	3.60	.67	.38	.74	.78
National Supply	130.8	160.1	N.A.	12.8	3.44	8.01	2.01	.87	.04	.52
National Tea Co.	274.3	270.1	2.6	2.3	5.78	5.08	1.34 c	1.19 c	1.32 e	1.93 c
Penick & Ford	36.7	40.8	10.8	8.2	3.40	2.86	.60	.53	.98	1.29
Penna.-Dixie Cement	17.9	18.4	22.9	23.2	4.37	4.86	.59	1.24	1.34	1.20
Phelps Dodge	194.3	242.5	26.0	33.1	6.85	10.30	2.52	1.02	......	3.31 b
Pure Oil	263.3	281.3	12.2 a	19.0	6.22	9.91	......	2.99 b	......	3.23 b
Rayonier	48.7	63.4	22.2	29.2	4.75	9.09	1.71	1.16	.32	1.56
Scott Paper	83.5	73.5	11.3	8.5	6.07	4.15	1.29	1.45	......	3.33 b
Shamrock Oil & Gas	24.6	21.4	28.5	38.6	3.63	4.28	1.09	.76	.72	1.06
Shell Oil	816.4	830.4	11.8	17.9	5.67	8.27	1.59	1.20	1.26	1.62
Spiegel, Inc.	132.7	134.6	2.7	5.3	1.01	2.48	......	.65 b d	......	1.66 b
Texas Gulf Producing	9.2	9.7	51.7	57.9	3.13	3.72	.75	.80	.83	.75
Thompson Products	107.6	96.9	9.0	8.3	12.88	9.57	2.06	3.50	3.85	3.47
Westinghouse Electric	945.6	970.6	11.8	10.0	4.95	4.11	.79	1.31	1.54	1.31

N.A.—Not available.
(a)—Pre-tax margin.
(b)—6 months.
(c)—12 weeks.
(d)—Deficit.
(e)—16 weeks.

Recent . . . Dividend Omissions– Reductions



By GEORGE W. MATHIS

While the principal feature of the general dividend picture is their stability, it goes without saying that there are always exceptions. There has recently come to hand quite a crop of dividend increases, the significance of which was discussed in our last issue. But there have also been dividend reductions or omissions, though fewer in number.

In this article we shall deal with the latter, their fundamental causes and the outlook for a reversal of the trends that made adverse dividend decisions necessary. To know this is essential for the stockholder, for it is the fundamentals of a situation on which he must base his decision whether to hold on to his stock or sell out. Either course, unless taken judiciously, could prove erroneous and costly, depending on circumstances.

As was to be expected, the ebbing of the postwar boom, return of heavy competition and lower prices was apt to affect the showing of companies particularly vulnerable to such influences, especially of normally marginal concerns, and such factors may continue to be felt in the future, possible in mounting degree. But some adverse dividend actions have also been due to transient influences such as strikes, inventory losses and other non-recurring factors.

Where, in such instances, dividends have been cut or omitted. such action primarily reflected either weak finances or the desire to steer a prudent financial course. On the whole, however, it is useless to generalize. A detailed study of all factors involved is necessary to bring out the true picture. We shall do this in the following, discussing a number of situations out of a somewhat larger list shown in the accompanying tabulation.

American Locomotive Company last month declared a common dividend of 25¢ instead of the 35¢ paid quarterly during the last three years. The directors indicated that they thought this change prudent in the light of the less assured outlook now, compared with a year ago. Actually the company reported somewhat higher sales and earnings for 1949 with per share net of $2.50 versus $2.30 in 1948. Still 1949 profits were less than anticipated at the beginning of that year.

The management explained that production economies resulting from the full changeover to diesel production from steam were largely offset by price cuts on diesel-electric locomotives, production setbacks caused by shortages of materials and by unusually heavy expenditures for new developments and improvement of existing products. Earnings for the second half of the year thus were about $900,000 less than in the first half, reflecting chiefly competitive reductions in selling prices.

At the year-end, the company's order backlog was $50 million. Together with the fact that demand for diesel-electric locomotives is likely to continue high for the next few years, this points to a goodly rate of operations in 1950 but the pinching of profit margins due to competitive conditions may not be readily overcome. In addition, a company-paid pension plan will become effective May 1, further adding to costs. In the circumstances, it is understandable that the management prefers a conservative dividend policy. Around current price of 15¼ for the stock, the reduced dividend potential appears fairly well discounted. Should the 25¢ interim payment remain as quarterly rate, the annual $1 payment would still yield 6.7%. Any improvement in operating results and outlook might of course lead to reconsideration of dividend policy.

Commercial Solvents

Not entirely unexpectedly, Commercial Solvents reduced its quarterly dividend to 25¢ from previously 37.5¢. Earnings last year declined to $1.28 a share from $2.10 in 1948. Several factors affected the business. One was the sharp drop in the price of alcohol and solvents about a year ago. Another was the steady decline in the price of penicillin of which the company is a large producer. The new dividend rate, if continued, will bring the yield down to 5.9% compared with 8.9% on basis of last year's total disbursement of $1.50 a share.

Price competition in the alcohol and solvents fields, due to overcapacity, in the past has frequently affected earnings which in fact have been in a downtrend since 1948 after the stock in 1947 was placed on a $1.50 annual dividend basis. What with the narrowed earnings coverage last year, a reduction was to be expected. Yet the stock held up relatively well.

This is ascribed to the long range profit possibilities seen in the company's activities in the pharmaceutical field including the sale of a newly developed drug called Glucurone which has been shown in medical tests to be helpful in treating arthritis and sciatica. It is said to have several advantages over the widely publicized and expensive hormone Cortisone. Glucorone, made for the company (from corn) by the Corn Products Refining Co. is comparatively cheap and can be produced in substantial amounts if demand develops.

Long Range Potentials

It is not probable that the new drug will add substantially to earnings for some time, since development expenses are high and output so far limited. The outlook elsewhere does not permit the expectation of a sharp rebound in the near future. An early change in the dividend rate would therefore not seem a logical expectation. Relatively good price action of the stock reflects longer range expectancies, realization of which must be awaited but which of course hinge on other products besides Glucurone.

The passing of American Woolen's common dividend coincided with issuance of an extremely drab 1949 report which together with the uncertain outlook in the company's business furnished ample explanation for the management's action. Per share net dropped steeply to $1.18 from $15.88 in 1948, with sales dwindling from $197.8 million to $132.1 million. The operating margin shrank from 13.4% in 1948 to 1% last year. In 1948, the company paid dividends of $8 a share, and $3.50 was disbursed in 1949, the last quarterly payment amounting to 50¢ compared with $1.50 paid in the first quarter.

The future dividend outlook is extremely uncertain. While sales and earnings had recovered somewhat in the fourth quarter when 69¢ a share was earned, a company spokesman indicated that the current quarter's earnings will certainly not compare favorably with the like quarter of 1949 when net income of $1.25 a share was reported.

Near capacity production is needed for most profitable operation and this obviously is not in sight. Moreover, the company has been unable to cut its manufacturing costs from the present high level, largely because of the necessity of maintaining present direct labor costs. Inflexible labor costs, coupled with high wool prices and sharply reduced demand for woolen and worsted fabrics are likely to continue to affect results. Wool prices will tend to stay at high levels and demand conditions will make it difficult to fully adjust sale prices.

Shake-Down to Normal Pattern

Basically, this sharp drop last year in sales and earnings reflects the sudden but not unexpected end of extraordinary postwar demand for civilian fabrics. Coupled with inventory losses, uncertain raw material prices and high manufacturing costs, it was inevitable, and with domestic production capacity in the field now in excess of the consumption potential, any approach to high postwar sales and earnings appears out of the question under foreseeable conditions. The company's operations still have to shake down to what might be called a normal pattern, thus the future earnings potential is difficult if not impossible to appraise at this time. And the future dividend policy will naturally hinge on the indicated profit potential. Its clarification will take time.

At current price of about 23, the stock has come down a long way from its 1946 high of 70¾ and the 1949 top of 38⅝, but in the circumstances described and in view of the com- (*Please turn to page* 702)

Companies which Reduced or Omitted Dividends in 1950

	Net Sales 1949 ($ millions)	Net Sales 1948 ($ millions)	Operating Margins 1949 %	Operating Margins 1948 %	Net Per Share 1949	Net Per Share 1948	Dividends Per Share 1949	Dividends Per Share 1948	Interim Payments Reduced in 1950 From	Interim Payments Reduced in 1950 To	Recent Price
American Bank Note	N.A.	$21.4	N.A.	24.8%	$2.64	$3.71	$2.00	$2.20	$ .40 Q	$ .25	20
American Locomotive	$147.2	143.9	N.A.	5.8	2.50	2.30	1.40	1.40	.35 Q	.25	15¼
American Safety Razor	....	13.5	....	6.3	.35 E	.47	.50	.75	.12½ Q	Omitted	7⅝
American Woolen	132.1	197.8	1.0%	13.4	1.18	15.88	3.50	8.00	.50 Q	Omitted	23⅜
Chesapeake & Ohio	273.9 h	334.5	80.1 i	75.9	1.36	3.72	3.00	3.00	.75	Omitted	29⅞
Commercial Solvents	33.3	41.5	14.7 c	20.5 c	1.28	2.10	1.50	1.50	.37½Q	.25	16⅞
Eagle Picher	63.3	79.4	d	11.0	2.20 d	6.26	1.80	1.80	.45 Q	.30 Q	16⅛
General Cable	60.1	78.6	N.A.	8.1	.42	1.75	.70	1.00	.10	Omitted	7¼
Glen Alden Coal	84.5	105.8	4.0	9.0	1.67	3.67	1.50	2.50	.50	Omitted	16⅛
Goodall-Sanford	44.8 f	46.1	4.6	7.3	1.88	3.52	1.37½	1.50	.25	Omitted	14⅝
Heyden Chemical	26.1	24.9	9.8	19.3	.91	2.04	1.00	1.00	.25 Q	Omitted	13⅝
International Shoe	190.0	219.8	6.5	9.9	2.26	4.06	3.00	3.00	.75 Q	.60	42¼
Packard Motor Car	214.1	231.9	N.A.	10.1	.51	1.01	.50	.35	.25	Omitted	3¾
Paraffine Companies	31.2 f	31.3	14.0	14.2	2.14	2.40	1.20	1.20	.30 Q	.15	16⅝
Pepsi-Cola	....	46.6	....	12.4	.40 E	.55	.20	.42½	.10	Omitted	10⅜
Pittsburgh Consolidation Coal	....	235.4	....	14.6	6.00 E	10.50	3.00	2.25	.75	.50 Q	28⅞
Simonds Saw & Steel	22.5	30.4	14.2	21.1	3.45	6.69	2.60	3.70	1.00	.50	31⅜
Southern Railway	212.7 h	245.0	78.2 i	75.4	6.87	12.52	4.00	3.25	1.00	.75	34½

N.A.—Not available.
(a)—Plus stock.
(b)—Year ended September 30, 1949.
(c)—Pre-tax margin.
(d)—Deficit.
(E)—Estimated.
(f)—Year ended June 30, 1949.
(g)—Year ended October 31, 1949.
(h)—Total operating revenues.
(i)—Operating ratio.

POLITICS IN T-H APPLICATION

By E. K. T.

REASON for the delay in appointing a successor to Dr. Edwin G. Nourse as chairman of the President's Council of Economic Advisers, is coming to light. There is a concerted and, up to now, quiet drive to install Leon Keyserling in the top spot. Keyserling has been acting chairman for many months, but the White House has received constant unfavorable reaction to trial balloons sent up to measure the popularity of a suggested promotion of the politically-minded lawyer who has been a member of CEA since its creation. Keyserling and Nourse split when the chairman refused to lobby for White House economic policies. The White House thinks now that all has been forgotten.

WASHINGTON SEES:

An Easter recess, plus the certanity of lengthy debate, will slow the progress of the first omnibus appropriation bill of modern congressional history. Sponsors of this type of federal spending control won't rush matters. They appreciate that the system is on trial, that hasty action could cause a reversion to agency-by-agency budgeting.

Projecting a billion-plus cut below President Truman's "rock bottom" 42.4 billion dollar estimates, the omnibus bill will clear the house committee before the recess but isn't scheduled to come to the floor for debate before late in April.

Appropriations committee chairmen on both sides of the Capital welcome the delay. It will afford time for editorial discussion. And the senators and representatives, back in their home precincts from April 6 through April 17, can pick up the reactions of their constituencies, won't have to wait for the mail-bag "mandate."

The new budget will put squarely before the economy-talking congressmen the obligation of proving by their actions that their words are meanful. Whether they will be allow local programs to fall by the wayside in the interest of less-costly overall government, is the big question to be answered. Unfortunately, deep pessimism over that prospect permeates official Washington.

Gaining support here is a proposal to require roll call votes on all major items, require the lawmakers to "stand up and be counted."

CONGRESS is determined to find, for the first time, exactly what the 125 million dollars of annual subsidy to airlines stands for. There has been no mathematical separation of operating revenues from mail grants and the Hoover Commission, the Bureau of Budget, and now congress frowns on a system which actually doesn't reflect what is paid for carrying the mail. One of the end results may be to cut the Post Office Department's half-billion dollar annual deficit. But the more important aim is to learn, through Civilian Aeronautics Board studies, the points of airline inefficiency and to require their prompt correction

BIGGEST landlord in the United States, the federal government, wants to get out of the business as soon as possible. Involved in this operation originally were 900,000 wartime housing units including 183,000 temporaries which cost $486 million, 71,500 veterans re-use units accounting for $123 million, and 300 permanent multi-units costing $640.9 million. About $25 millions have been realized from rentals. Steam will be put behind legislation to sell the sites to municipalities, give the cities the temporaries, sell them the permanents. Buildings the localities don't want would be federally operated.

LEGISLATIVE approach to cure for the ills of unemployment suggests a crushing taxpayer load but the economy-minded congressmen are on their toes. Made work in the shape of federal contracts to industry is proposed in several strongly-supported bills. There is pending legislation for a $1.7 billion fund to provide employment through grants to state and local government for public works, plus another half-billion dollars to replenish the "shelf" of projects for future handling.

As We Go To Press

The democratic national committee is putting in its oar in the fight against Robert Denham, general counsel of the National Labor Relations Board who is accused by his foes of being partial to employers and who has aroused the ire of board members by accusing them of being prejudiced in the opposite direction. National Chairman William M. Boyle has sent a resume of board action to all committeemen and campaign workers. Its concluding lines: "32 injunctions were issued last year, all of them against labor unions, the result of a law designed to work against unions and for anti-union employers."

The novel situation of an industry protesting that it hasn't enough federal government regulation and asking for more, was presented to a house subcommittee. The congressmen are gathering information on existing laws affecting transportation and have asked a statement of viewpoints from the carriers. American Trucking Associations complained there are too many exemptions from statutes fixing rates to be charged by highway transporters. They, too, want "loopholes plugged," they pleaded.

There was refreshing contrast in the post-British election statement issued by Senator Robert A. Taft of Ohio, which came more than one full week after the official commentaries of the republican national committee and several of the more vocal GOP-ers in congress. Most of the spokesmen, official and otherwise, saw the narrow win of Britain's labor party as the death knell of the Truman-led democratic party in the United States. Taft, with a hard campaign on his hands, might have been expected to sound the same note. Actually, he said: "I do not suppose that a voter in Ohio is going to change his vote simply because of the British results."

After two years of operation under what John L. Lewis calls the "slave labor law," unions appear to be well-heeled slaves. Failure of the government's contempt action against United Mine Workers left its multi-million dollar bank balance undisturbed, and Lewis promptly offered a 1 million dollar gift to bolster the United Auto Workers strike against Chrysler Corporation. CIO a few weeks earlier had given half a million to the miners.

American statesmen read the statement of policy of the Attlee government, as presented by King George, with relief. It bred optimism on this side of the Atlantic if for no other reason than the total absence of partisan bickering, talk of defiance, or recrimination. The mention of continuing steps toward nationalization was regarded as essential "talking for the record" by a party which had won an election on a platform carrying that plank, but the general tenor of the message was considered to have ruled out serious effort in that direction.

The limited program of legislation which was promised, negates the thought of new legislative adventures to the left. Emphasis was on the financial program which is ahead. That is natural. Britain wants to pare its budget but insure maximum possible employment. To accomplish that will require full attention of the lawmakers. The sections on foreign relations were more in the nature of a report of progress and a promise of continuation along the same route. It sets up a policy that Winston Churchill hardly can reject, and isn't likely to criticize. It could be the meeting ground, observers here say, for a working coalition.

The long-awaited house committee investigation of lobbyist activity gets underway March 27, but no witnesses are expected to be called immediately. A staff has been doing spadework and its report will be examined by the committeemen before they begin examining personalities and practices. Obviously, the report will be loaded against the representatives of trade organizations and industry. It is hardly

to be expected that there would be an objective statement. The committee was created to explore the reports that the lobby law is being violated, and the staff is ready to cite situations designed to direct the thinking of the probing house members. Promised, however, is the first inquiry into the activities of government agencies who comprise the largest and most costly lobby in the Capital.

Company-paid pensions drive has attained success in the southern textile industry for the first time, and the AFL (whose affiliate negotiated the contract) intends to capitalize on the victory. The Goodyear Rockmart Mill in Georgia begins April 1 to pay up to $100 a month to employees reaching 65 who have been on the rolls for 25 years. Social security payment, of course, are unaffected.

The development is likely to have an immediate effect upon operations of the New England mills. Many cities in that section of the country already have lost production facilities to the southland. If the operators resist a determined drive by the textile mill union to force company-paid pensions in the north, at least some of the economic advantage which leads to dispersal will be overcome.

In spite of the fact that election results in Britain are considered to have doomed the impending nationalization of the steel industry, People's Lobby, 25-year-old legislative gadfly, professes to see the United States moving in that direction. And the evidence presented in support of that belief is from a most unlikely source of such policy: the Congressional Joint Committee on the Economic Report. Lifted from the report are such supporting statements as: "Their (steel company) managers may and do determine by their private decisions how much of a given commodity 144,000,000 people may have, and the price they pay for it."

Rent control is definitely on the way out. Congress has adopted the technic of withholding funds from the Office of Housing Expediter. Not only would the amount the solons now intend to allow make it impossible to police rent control, but also it would fall short of the money needed to close shop. It isn't a simple matter of locking the office door; hundreds of employees have accumulated leave which must be paid. And there wouldn't be enough money to carry out the demobilization.

Back in the pits, bituminous coal miners face the prospect of working for more than one year before the pay increase they won will have offset the wages they lost on their three weeks' wildcat strike. Their former base pay of $14.05 a day produced a wage of $70.75 for a five-day week, which means the layoff cost them $212.25 per man, and it will take 303 work days to recapture that amount. Again on a five-day week that means 60 weeks to "break even."

Actually, the loss is even greater. It may take the entire two and one-half year term of the new contract to get many of the mine families back on their feet. It must be remembered that, pursuant to John L. Lewis' advice, the workmen dropped back to a three-day week to dramatize their show of power. That went on for months, cut their take-home pay almost one-half -- instead of getting $70.75, they were getting about $42 a week. It will take many 70-cent higher wage days to cover that loss.

Topping that is the permanent loss of many customers of the mines who, tiring of continual strikes and layoffs, have switched to other forms of fuel. Railroads lead off with this picture of the changeover: On Feb. 1, railroads had 1490 diesel engines on order and only 73 coal burners. In 1949 they put 4700 new locomotives in service and 4350 of them are oil burners. January, the month in which the latest strike began saw the roads making a record-high order of 345 diesels.

On the home front, oil furnace manufacturers say they are experiencing their first busy year in history. Normally, the switch to oil is effected during the summer and fall months and the factories turn out the equipment to restock inventories. This year the production has been moving into the consumer market. And the Federal Power Commission has pending 57 applications for construction of natural gas pipelines, covering 14,000 miles, costing 900 million dollars.

Russian industry is still backward, its operations frequently old-fashioned, clumsy and inefficient, therefore wasteful and far less productive than ours.

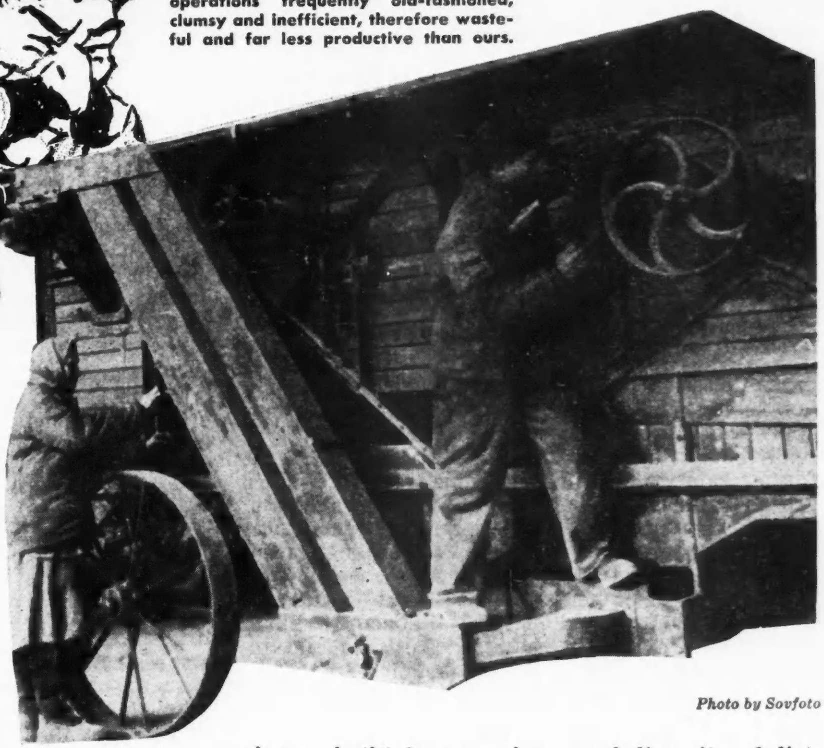


Photo by Sovfoto

Fact and Fantasy in RUSSIA'S *Talk About* ECONOMIC STRENGTH

By V. L. HOROTH

Hardly a subject arouses so much controversy and concern today as that of the present and prospective strength, economic and military, of the Soviet Union. Judging by the amount of space devoted to the subject and the "inside" information that innumerable commentators, reporters, and analysts appear to have about Stalin's and the Comintern's most secret plans and decisions, one would think that there is little that we do not know about Russia.

Actually, however, the very opposite is true. Considering that the communist empire, including China and the Eastern European satellites, covers about one-sixth of the "terra firma," the number of trained observers covering this huge area and who have no axe to grind, is mighty small.

There are, someone might say, volumes of Russian statistics and other material available. That is true. The communists discuss quite frankly the shortcomings of their economy, the strains of postwar rehabilitation and other difficulties. But there is always a good ending. Statistics can go only one way for "the veiled prophets of the Kremlin" — to new records. The technical pitfalls of Soviet statistics, their way of reporting and interpretation, are a chapter in themselves. Increasingly, only the Russian "specialists," such as are being trained by the new Russian Institutes at our universities, will be qualified to assess them competently.

Most of the observers and writers on Russia — by no means all of them, however — fall into two groups. Group number one is obviously under-estimating the foe. They compare the number of telephones, bathtubs, new shoes, and diversity of diet. They see on the basis of these comparisons that Russia's standard of living is one of the lowest in the world, barring perhaps only China and the primitive countries of Africa. Moreover, it is obvious to them —and this is an indisputable fact — that the standard of living of the average Soviet citizen *has gone down* rather than up during the past 32½ years that have elapsed since the bloody Leningrad uprising in November 1917.

There is no doubt that the Russian people have little stomach for sacrificing their lives for "the benefit of future generations." Many of them hailed the Germans as liberators — until they were disillusioned. Now the same Germans returning as prisoners of war describe the Russians as "lazy because they have no incentive to work better." Neither is there any doubt that a good deal of what has been accomplished has been due to slave labor which is about half as large (15 to 20 million, if the reports are correct) as the number of those gainfully employed in industries (33 million).

How Strong is Soviet Economy?

All these facts can easily lead one to a conclusion that the Soviet Union's economy is rotten and so tottering that it could be defeated by mere propaganda blasts or by widespread industrial sabotage by its luckless population — or by a firm foreign policy. Dr. James Burnham of New York University insists in his latest book, "The Coming Defeat of Communism," that this is all that may be necessary, because . . . the communist empire is weaker than the non-communist public now generally believes . . . because it lacks skilled workers and technicians, because leaders are feared and hated by the majority of the population, and its communist

parties and youth are going through a grave moral crisis.

The people in the other group disregard the economic weaknesses of the Soviet Union and are dazzled by its military machine. They point out that the Russian army is at least four times as large as our own; they see Russia's growing fleet of submarines, her defensive air power, her mastery of atomic weapons, and her gains in Asia. They also point out that some 19 per cent of the 1949 Soviet budget — which roughly corresponds to our national income expended — went for defense. Since we spend only about 6 per cent of our national income on arms, such observers argue that our defense expenditure ought to be stepped up to $50 to $60 billion a year.

Enigma of Soviet Budget

The question is, of course, how much the 79 billion rubles, which the Russians are reported to have appropriated for military purposes in 1949, have really bought in terms of goods and services. At the former rate of 19 cents per ruble — a rate which grossly overvalued the real purchasing power of Soviet currency, Russian defense expenditures would be equivalent to about $16 billion, rather more than ours of $13.5 billion. At the newly proclaimed rate of 25 cents a ruble (a rate even more unrealistic than the old one) it would come to about $20 billion. On the other hand, the cost of maintaining a Russian soldier is unquestionably only a fraction of the money spent on an American soldier. The bulk of the Russian army is still tied to "grass" rather than "gasoline," and from all indications the Russians have not been as hasty as we were in scrapping World War II equipment.

The famous Dnieper Dam, blasted by the Soviets themselves before the advancing German armies and now again completely restored.

All this boils down to a simple fact that the reports of "Russia's tremendous military preparations" may have been — as suggested recently in the N. Y. Herald Tribune, "planted leaks" of American intelligence estimates. Many of our people may be frightening themselves to death by their hysterical reactions to new weapons and the armament race in general. We may just as well recognize that some of our military weakness is of our own making. It has been due to our overhasty demobilization, and to quote again the contributor to the New York Herald Tribune, to "confusion, cross-purposes, and internal jealousies of our own military who think that only pouring more billions into armaments will save us."

It seems that the truth about the Soviet Union is somewhere between these two views. We don't pretend to know which one is nearer to the actual truth. There is little doubt that the economic resources (not to mention financial resources) of the communist empire are greatly inferior to the resources of the Western World. On the other hand, it is hard to believe that the communist empire will collapse just because of its own rottenness, or because of external propaganda and internal sabotage.

Most of the objective and trained observers agree that the Soviet Union had just about carried out by last Fall its major postwar rehabilitation. This has been no mean feat considering that nearly 40 per cent of the industrial capacity was destroyed or damaged by the Germans; the remaining 60 per cent suffered from under-repair. Moreover, except for the dismantled plants from Germany and Manchuria, the Soviet Union has received relatively little help in her task of restoring the war-devastated western industrial regions. While Czechoslovakia and Poland have contributed some capital goods, they have received other capital goods in return. The help of the satellite countries seems to have consisted largely of raw materials and consumer goods.

Another handicap that Russia had to overcome to restore the production to the 1940 level, involved the training of a huge new labor force. The war losses in human lives, estimated at about 20 million, reduced the industrial labor force by 4 to 5 million, and it was not until toward the end of 1948 that this loss was made up. Considering that the current increase in the Soviet population is about 3.5 million a year, about half of this number should be eventually available for work in factories.

Rehabilitation of Capital Goods Industries

The extent of the rehabilitation in the capital goods industries is illustrated by the accompanying table. The 1949 steel ouput at about 21 million tons was 3 million larger than in 1940, but still less than one-fourth of the United States output, and about one-half as large as the combined output of Western European countries. The big increase in 1949 reflected the completion of rehabilitation of the old Donbas plants, which at one time represented the backbone of the Soviet steel industry. But as a result of the wartime dispersion of steel plants to the Urals, to the Kuznetsk region in the heart of Siberia, to Central Asia, and as far as the Amur region in the Far East, the rehabilitated Donbas

steel industry is not likely to contribute more than 35 per cent of the overall steel output.

The rehabilitation of the Donbas coal mines similarly raised the coal output until in 1949 it was about equivalent to one-half of the United States coal production. But in Russia, with petroleum production at only a small fraction of our huge output, coal is by far the most important industrial fuel. Again the wartime developments were responsible for bringing in new resources.

Soviet Postwar Economic Development

POPULATION:	1940	1945	1948 (Estimates)	1949	1950 Goal
Population (millions)	198.0	191.0	...	...	205.0
Industrial employees (millions)	31.2	27.2	33.4	...	33.5
CAPITAL GOODS INDUSTRIES:					
Coal (million tons)	166	113	209	237	250
Steel (million tons)	18.3	11.2	17.0	21.3	25.4
Petroleum (million tons)	31.0	19.4	29.2	33.0	35.4
Cement (million tons)	5.8	1.9	6.7	8.7	10.5
Power capacity (bil. kw. hrs.)	48.3	43.2	63.4	74.2	82.0
Trucks and cars (thousands)	147.0	83.0	214.0	...	500.0
Tractors (thousands)	31.1	7.3	53.7	87.7	112.0
CONSUMERS' GOODS INDUSTRIES:					
Cotton cloth (billion meters)	4.0	1.67	3.23	3.70	4.80
Woolen cloth (billion meters)	120	57	126	...	168
Leather shoes (millions)	230	...	129	161	240
Urban housing (million square meters)		4	30	...	...
TRANSPORT:					
Length of r.r. (000km)	105	113	114(a)		123
Daily car loadings (000 cars)	98	69	103	...	115

(a)—1947.

The "Arctic Donbas"

When the German occupation cut off the supplies from the Donbas, a new 1,200 mile railway (the Pechora Railroad) was built up to rich coal seams discovered far in the then uninhabited Arctic tundra near Vorkuta. The rebellious peasantry and intelligentsia from the former Baltic states seem to be the chief labor force in this "Arctic Donbas" which sends coal to Leningrad plants. Another huge coal deposit is now worked in the central Asian Republic of Kazakhstan ,near Karaganda, now a city of about 300,000 people. The Karaganda coal feeds the new steel plants in the Southern Urals, and copper, lead and other smelters in the neighborhood of Lake Balkaash.

The greatest postwar recovery has been made in the expansion of electric power production and in rural electrification. This development has been accompanied by expansion of non-ferrous metal production. A huge new city is reported to have grown up at Krasnoturinsk in the Urals, the site of a new giant aluminum plant. Some of the older Ural cities, such as Chelyabinsk or Sverdlovsk where machinery and aircraft plants were transferred during the war, are said to have grown into sprawling metropolitan areas of 1 to 2 million people.

In contrast with the capital goods industries — and unquestionably also ordnance plants — the recovery of consumer goods industries has lagged woefully behind. As will be seen from the table, the 1949 output of leather shoes was, for example, only about two-thirds as large as in 1940. Actually the production was considerably less than one pair of shoes per person a year.

Food production has also been lagging behind the prewar figures. Protein foods, such as meat and eggs, are rare and only the upper classes (army officers, bureaucrats, industrial engineers, factory executives, and high-paid artists and writers) can afford to buy them. The ordinary worker, who makes about 800 rubles a month, subsists almost entirely on black bread (of which they consume as much as three pounds a day), potatoes (now very cheap), soups, beets, an occasional sausage, and a little tea and sugar.

The housing situation in the Soviet Union has always been bad, which is quite natural since only the upper classes and farmers have been allowed to build individual private homes during the past 30 years. The wartime destruction made the housing situation infinitely worse. The Herald Tribune correspondent, Mr. Joseph Newman, reports that in Moscow — which is the show-place of the Union — the ordinary people are entitled to about nine square yards of housing per capita, which makes it quite usual for two families to share a single room. According to the National Association of Home Builders, we are now building in this country nearly seven times as much housing per 1,000 people as Russia, where new homes could be more appropriately termed "barracks" since they have common kitchens and common sanitary conveniences. On the other hand, the rents that the Russians pay are ridiculously low by our standards.

What are the implications of Russia's having accomplished the rehabilitation of the capital goods industries by herself? According to some observers, Russia may feel more secure; the fact that her rear is now protected by the allied communist government in China may have added to this sense of greater security. Whether as a result the Soviet leaders will show more willingness to cooperate with the West, or whether they will be even more dogmatic and ornery than in the past, only time will tell.

Some observers believe that the Soviet leaders will divert a greater share of national resources to the production of consumer goods and to the raising of the living standards of the Russian people. The recent cut in Russian prices and the release of more food and clothing for consumption are taken as an indication that the Russians may be shelving the idea of an early war.

Subject to Heavy Qualification

The significance of the move, however, must certainly be taken with a grain of salt. Little is known about available quantities of the goods, the prices of which have been lowered; and even the new prices are still preposterously high by any western standard.

Whatever the internal implications, the fact that the Russians are overcoming, however slowly and inefficiently, the wartime (*Please turn to page* 698)

Pros and Cons in . . .

OPEN-END INVESTMENT TRUSTS

By J. S. WILLIAMS

One of the much talked about developments in the investment field last year has been the extraordinary spurt in purchases of open-end investment company shares, particularly in the last half year. About 120,000 investors in 1949 turned to this medium as a method of employing accumulated savings, after allowing for a substantial number that for one reason or another cashed in their holdings.

As applied to 91 of the open-end investment trusts, the number of shares outstanding rose from approximately 273,000 in 1948 to 385,000 by the end of 1949, with net sales involving $277.9 million. Since the uptrend was far more rapid and substantial than in any year for a decade past, it seems timely to discuss some of the pros and cons of this investment medium.

The foregoing is especially true now that the asset values of the leading open-end mutual funds have climbed to $1.97 billion, which together with the $794 million assets of closed-end investment companies makes a grand total of more than $2.7 billion worth of stocks and bonds held for the benefit of an increasing army of investors.

For those of our readers who are not fully informed, let it be said that there is virtually no limit to the number of shares that can be sold by open-end funds through authorized dealers. The closed-end companies on the other hand do not expand in this respect; theirs is a fixed capitalization and their shares are either listed on the Stock Exchange or traded over-the-counter.

This distinction is important for the investor, because while he naturally has to pay for managerial services in both instances, the promotional expenses of the open-end trusts must also be included in his initial purchase price. For this and other reasons, our discussion will center largely on investment companies in the open-end category.

Admittedly, there is something to be said for the obvious advantages that the investment trusts offer to small investors and thrifty minded people whose limited experience or moderate means are a handicap in establishing their own individual portfolios. A high degree of basic safety is presented by spreading the risk over a large number of well selected enterprises, under the constant scrutiny of trained analytical and market experts. No single investor could possibly achieve similar widespread diversification such as the investment companies offer, yet savings as small as $100 and even less can be put to work with extraordinary safeguards in this respect. Furthermore, such an investment can readily be converted into cash if an emergency should arise, though the aggregate market price of the securities in the fund at the time of sale would determine whether the liquidation would result in a capital gain or loss.

But it is right here where also certain weaknesses of such a program become evident. While the SEC now requires all mutual funds to state clearly their investment policies, it is rarely that one of the programs available is exactly attuned to what an individual investor may desire, or would adopt individually upon careful study. At any rate, experience has shown that many investors are prone to rely too heavily on diversification and would be better off with a more limited number of shares in their portfolios, carefully selected to meet their special needs and objectives. The advantage of diversification, in short, can be overstressed, and often is.

Size Creates, Intensifies Problems

More importantly, the increasing size of the leading investment companies intensifies problems, even where their basic aim appears to fit in nicely with that of an intelligent investor. On this point, special care in selecting the right mutual fund must be observed, for the policies of most of them vary widely. It is possible, for example, to find some placing major emphasis on either stable or liberal income; others concentrate on appreciation, still others confine investments to a single industry, and many use flexible formulas in an effort to achieve maximum overall results.

While it is true that in practically every instance,

the investment companies are staffed with a high caliber personnel, their judgment is by no means infallible, and because their portfolios often carry quite substantial lists of equities, preferred stocks and bonds, the difficulty of maintaining desirable balances and of making effective buy or sell decisions is compounded. Periodic disclosure of the positions of numerous funds reflects the broadly varying manner in which program policies are implemented.

Income versus Appreciation

On the whole, it seems quite clear that most of the leading funds, as is commendable, lean heavily on the element of dependable income but also strive to establish capital gains. Under the Investment Act of 1940, those mutual funds that agree to distribute at least 90% of all income are relieved of income taxes, and such portion as represents capital gains is subject to tax by their shareholders on the same basis as if they had personally accepted the profits. How broadly company policies vary, though, in profit taking is shown by the 1949 dividends distributed by various funds. Massachusetts Investors Fund, for example, paid 2 cents per share representing capital gains versus $1.40 from investment income, in contrast to Loomis Sales Mutual Fund that paid $3.76 from security profits and $3.24 from dividends and interest.

While basic policies of course count importantly in profit taking decisions, it would seem that many of the funds have reached or are approaching a size where large-scale liquidation of their portfolios would be difficult without serious repercussions on the stock market. In contrast, the average investor handling his own portfolio faces no such potential trouble, and if alert can take profits and accumulate cash readily when circumstances so dictate. Such procedure, backed by competent advice, establishes a distinct advantage for an individual program.

Appreciation Potentials

Another aspect worthy of consideration is that such capital gains as the mutual funds actually achieve are closely patterned after general trends in the stock market. This is only natural, considering the broad range of securities carried and the size of their investment assets. Under today's conditions, however, success in any investment program hinges less on the course of the general market than on the price behavior of carefully selected individual equities, particularly where appreciation is an important objective. In this respect, it appears obvious that an informed investor could do better for himself.

Where income return is the main consideration in an investment program, there seems to be little question as to the relative merits of a formularized mutual fund and an individual account. It can validly be argued that by maintaining a substantial portion of investible funds in bonds and preferred stocks, the investment companies follow a very conservative course, despite the fact that such a program per se produces somewhat lower income. On the other hand, the mutual funds and the New York Stock Exchange alike have been conducting a major campaign to educate the public on the soundness of many listed stocks, a program that should be indefinitely extended. It has long been the contention of this magazine that investors can feel confident of both inherent safety and average satisfactory income by investing in good grade equities.

Since the average yield on all stocks listed on the New York Stock Exchange has been better than 6.5% for many months, and any number of outstanding equities return even better than that, an average yield of 5.65% on invested capital reported by a large group of investment companies in 1949 suffers considerably by comparison. This is especially true since capital gains under favorable market conditions swelled the yield of the funds. Very clearly an individual investor could, with careful selection and avoidance of undue risks, not only obtain a yield as high as the general market average but even a higher one.

Discussion of the relatively lower yield on investment company shares leads to examination of the causes therefor. A "loading" charge of from 6% to 8% on purchases of open-end fund shares is added to the market value at the time of acquisition, in this manner of course reducing the yield. The extra charge, though, includes commissions paid at stock exchange rates for purchase of the underlying securities by the issuing company, and on a basis of 100 share lots rather than the somewhat higher charges incurred in buying odd lots.

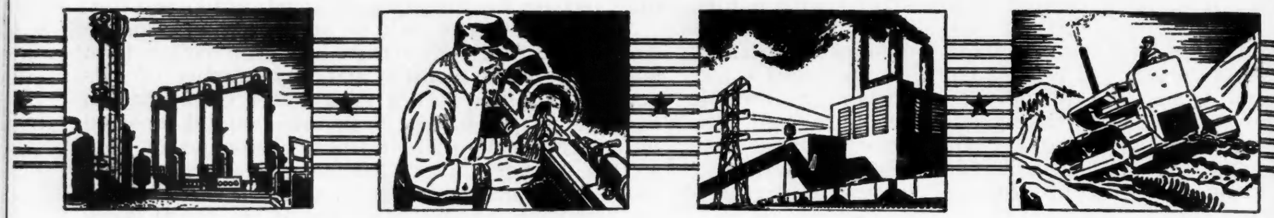
Promotional and Selling Expenses

In this respect the investor having only small sums at his disposal reaps some advantage, but he also helps pay for sizable promotional and selling expenses of the fund, for the cost of furnishing informative literature to potential customers and for commissions to wholesalers and dealers promoting sales of the shares. On top of the loading charge, also, the owner of investment shares has to pay from .3% to .6% annually for overhead expenses in supervising the portfolio. Hence it is not surprising that his net yield is pared down.

Viewed in a broader manner, to just what extent the vigorously growing investment companies may be a support or threat to the stability of the general stock market—at any given time—is something to think about. The fund managers only partially control the amount of buying and selling that takes place at any time. This because investors in trust shares in favorable economic periods, in fact ever since 1940, have increased the amount of funds which the investment companies must put to work sooner or later, thus progressively lessening the supply of available securities. While the exact influence of this factor on stock market prices is not determinable, in some degree it certainly does help to support an uptrend in share quotations.

Conversely, when marked recessionary periods arrive, redemption of trust shares proceeds at an accelerated pace, in the process forcing the mutual funds to unload correspondingly large amounts of securities. Additionally, caution at such times will likely induce the fund managers to liquidate holdings in order to accumulate cash in anticipation of more favorable buying opportunities. In combination, this dual pressure on stock market prices could become quite significant if clouds on the economic horizon create serious uncertainties and share prices start to tumble.

This is especially important to consider since it has become apparent that purchases of investment trust shares are by no means based entirely on long term programs. Even in a year like 1949, redemption of trust shares (*Please turn to page* 703)



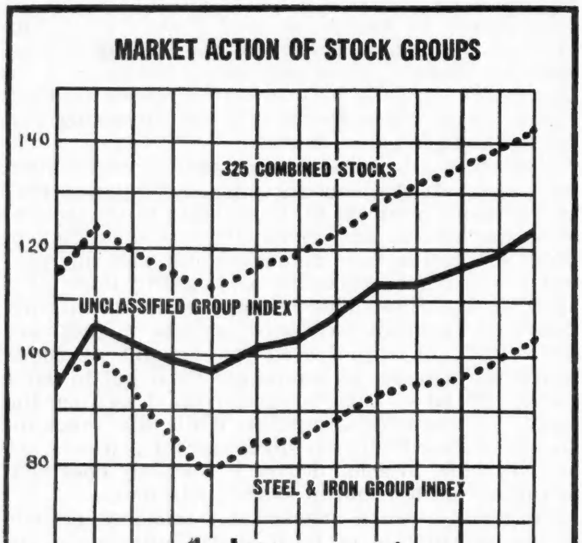
1950 Special Re-appraisals of Values, Earnings and Dividend Forecasts

★ ★ ★

Prospects and Ratings for Steels, Autos, Tire and Rubber Shares, Specialties and Unclassified Stocks

Part IV

Business has entered the new year showing signs of vigorous recovery not only from the effects of the strikes last October but also from the recessionary trends which prevailed during the forepart of 1949. The general level of activity in recent weeks has held close to that of a year ago, when the 1949 recession had barely begun and operations were at a high mark. Year-end forecasts reflect a general anticipation of well-sustained volumes of production and trade in the first half of the year but uncertainty regarding trends during the last half, arising primarily from misgivings over the amount of business investment and the need for further readjustments, particularly in durable goods industries.

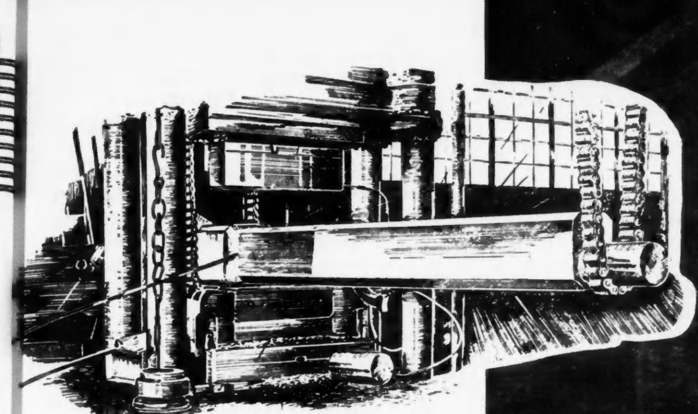


It would be premature to insist, as some do in view of the present production spurt, that economic readjustment is completed. It is simply that last year's strikes have upset the short term time table of adjustment and once the strike aftermath is over, adjustment is bound to resume especially in areas little affected in the past. Thus 1950 no less than 1949 may witness numerous cross currents which are bound to affect not only business generally but also create varying prospects for specific industries and companies.

To assist our readers in arriving at sound investment decisions under changing conditions, The Magazine of Wall Street presents its Security Re-appraisals and Dividend Forecasts at six months intervals, in addition to its regular coverage of important developments. By this method, the maximum number of industries are periodically reviewed on the basis of latest information, supplemented by statistical data for ready comparisons. Additionally, brief comments on the status of each company listed are presented.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a "W" in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter "X." *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*



Revised . . . . . STEEL *Prospects for* 1950 . . . . .

By RICHARD COLSTON

The long awaited and widely heralded slump in steel has been deferred again. Each time return of keenly competitive conditions seems imminent, something seems to happen to postpone the threatened test. Combination of last year's month-long steel strike and the recent protracted shutdown in bituminous coal has created such an urgent demand for raw materials in consumer goods lines that some manufacturers are negotiating "conversion deals" for the first time in two years.

This condition virtually assures another good year for the strong, well situated integrated producers and prolongs the period of reasonably satisfactory earnings for marginal companies. Such a promising outlook almost five years after the end of hostilities and in the face of enlargement of the industry's productive capacity may be attributed to these significant factors:

(1) Steadily mounting use of steel in many new products, as indicated by production of an estimated 1,300 pounds of steel for each person in the country last year compared with only 879 in 1937—a 48 per cent rise in only a dozen years.

(2) Greatly increased national income that encourages consumption of household appliances, motor cars, etc., requiring large quantities of steel.

(3) Rapid growth in population accounting for extensive public works projects, such as schools, hospitals, etc., using steel.

(4) Speeding up of road programs deferred during war that use substantial quantities of steel in culverts, bridges, etc.

(5) Maintenance of a high level of armament construction because of continued strained international relations.

(6) Fact that steel price has advanced less than many other raw materials encourages use as replacement for higher cost products.

With demand for major steel products apparently assured throughout the year—unless General Motors as well as Chrysler plants should be closed in a lengthy wage-and-pensions dispute — this industry may be expected to enjoy another year of high production. Although contracts between principal steel concerns and the Steel Workers Union may be reopened late this year for wage rate negotiations, indications are that no general suspension of output such as experienced last October is in prospect in 1950. Moreover, now that adequate coal supplies seem assured through recent settlement of the nation wide United Mine Workers' strike, no important interruption should take place on that score.

Capacity Expansion

To supply prospective demand, the industry has enlarged productive facilities to the highest level in history. According to the American Iron and Steel Institute, capacity has been increased to 99,392,800 tons, compared with 81,619,496 tons in 1940 and 72,985,406 ten years earlier. In other words, the industry has expanded capacity some 36 per cent in the last two decades since the 1929 boom. This gives an idea of the vitality of the industry considering the depressing effect of adverse business trends in the 1930's.

Much of recent expansion has been dictated by necessity of replacing higher-cost plants that probably are destined to become obsolete once keen competition returns. In fact, at the recent congressional hearings into the industry's price advance, Benjamin F. Fairless, President of United States Steel Corpo-

ration, stressed that abnormal plant expenditures were for replacement of existing facilities rather than for expansion—pointing out the unwisdom of borrowing long-term funds for such modernization projects required to counteract rising wage costs.

Adequate Profit Margins

With a few minor exceptions, the industry is well situated at present to maintain adequate profit margins. Labor costs are unlikely to be raised this year and provision has been made for instituting pension systems. Although railroad brotherhoods are taking steps to demand higher wages, it seems doubtful whether any significant boosts in freight charges can be put into effect within the foreseeable future. As a matter of fact, some carriers are studying carefully the advisability of seeking rate reductions on certain steel products to meet truck competition.

Coal costs may rise moderately in reflecting awards under the new two-year contract, and this may mean a jump of as much as 50 cents a ton in steel making, since about two tons of coal are required in making each ton of steel. To some extent, however, this situation was taken into account in the price adjustment last December which resulted in an average increase of about $3.82 a ton or slightly more than 4 per cent. Moreover, restoration of the five-day week in mining coal will effect moderate economies.

On basis of current industrial forecasts, major consumers of steel appear destined to need large quantities this year. Principal factor is the automobile industry, which normally takes between 20 and 25 per cent of finished steel each year. Building construction ordinarily falls in second place, but because of rising public works projects seems in line to become more important than the motor industry. Railroads may require less steel this year, but generally the transportation industry is an important customer. Tin containers, machinery, pressing and stamping machinery producers and the oil and gas industry are other major consumers of steel. Possibly farm equipment makers and the oil industry may reduce requirements, but most other large consuming industries seem likely to want as much steel this year as in 1949.

Favorable Earnings Outlook

With demand apparently strong enough to warrant the prospect of a relatively high rate of operations throughout the year, and with profit margins destined to hold at close to best levels since the war, leading integrated producers appear in line for earnings comparing favorably with those of 1949. Latest available data covering sales, earnings, profit margins, dividends, etc., for representative steel producers and fabricators are presented in the adjoining tabulation. Comments for individual companies suggest earnings and dividend prospects.

Unless there should be disruptions from labor trouble in consuming industries—automotive, for instance—some steel companies could turn out really sensational earnings statements, for benefits of modernization programs will become fully evident for the first time this year. Several producers were just beginning to realize economies in operating costs last year when the three-day week in coal mining and the strike over pensions disrupted operations. Subsequent coal shortages prevented stepping up capacity to get best results. In the next few weeks, however, with coal once again abundant, some of the progressive concerns which have installed modern equipment should experience outstanding progress.

Incidentally, had it not been for the industry's continuous improvement in facilities, steel costs undoubtedly would be much higher than they are. Testimony presented at the congressional hearings in January showed, for example, that increased productivity in the case of United States Steel resulted primarily from improved tools of production. Surveys undertaken by the industry leader disclosed that the average employee performance rate, as judged on the total of plants where change of product output per man-hour reflects this factor, was about 6 per cent lower in 1948 than in 1941. With benefit of improved tools of production, workers were able to offset the retrogression of 6 per cent in average employe performance rate and to produce a net gain of 4 per cent product output per man-hour over that of 1941.

As indicated in the example quoted, the steel industy's technological progress has enabled it to hold down production costs and expand markets for its products. Research continues to suggest that short-cuts in production through new methods and by means of new processes may give even more outstanding gains. A new process has been developed, for example, according to scientists, which makes possible production of high quality steel in twelve minutes without use of fuel. This method is called the turbo-hearth. After molten pig iron from the blast furnace is poured into the giant urn, blasts of air are shot in from the side to blow over the molten iron. Carbon and other impurities in the pig iron supply the heat as they oxidize in the air stream. It is all rather ingenious.

Progress in Steel Making

Great progress has been made in all phases of steel-making. A recently completed steel making furnace, for instance, has been designed to produce 550 tons per heat, or enough metal to build a four-unit diesel-electric locomotive. The giant open hearth has three or four times the capacity of many older furnaces. Efficiency in operation of water cooled doors and in the "cooking" process contributes to low manufacturing costs.

Notwithstanding evidence of aggressive management in keeping pace with industrial progress, steel shares have failed to gain high favor with investors. Because they still are regarded as representatives of a "prince" and pauper" industry, subject to wide cyclical changes, few stocks in the industry are given high investment ranking. On the average, they sell at three to five times share earnings and yield as much as 8 to 10 per cent on dividends reasonably well protected in recent years. Appraisals currently are quite moderate, for as a general rule, earnings of principal steel producers in the last year or two have averaged about the best on record. In the light of the promising outlook for coming months and possibility of more generous dividends, good grade steel shares appear worthy of retention for high yield and longer term appreciation.

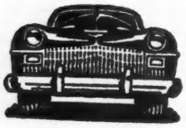
Although it is understandable why steels do not command as high an appraisal of earning power as some other manufacturing industries, it would appear that basis for appreciation may be found in the fact that most companies (*Please turn to page* 698)

Statistical Data on Leading Steel and Iron Companies

	Net Per Share 1949	Net Per Share 1948	Div. Per Share 1949	Div. Per Share 1948	Div. Yield‡ %	Price-Earnings Ratio†	Recent Price	Range 1949-50	Invest-ment Rating	COMMENTS
Acme Steel	$1.90	$3.68	$1.75	$2.00	8.5%	10.7	20½	21⅝-17⅞	B1	Improved first half results expected, pointing to higher 1950 earnings and assurance of $1.40 dividend rate. Lack of integration is handicap.
Allegheny Ludlum Steel	1.16	5.05	2.00	2.00	8.1	21.3	24¾	27½-17⅛	B1	Prospect for recovery in demand for stainless products and expansion in titanium favorable. Management intent on holding $2 dividend.
Armco Steel X	7.68	7.96	2.50	2.00 c	7.7	4.2	32¼	33¾-19½	B2	Urgent demand for light steels and specialties points to continued satisfactory earnings and $2.50 dividend. Good labor relations strong factor.
Bethlehem Steel X	9.68	9.36	2.40	2.40	7.0	3.5	34	35 -23⅛	B2	Strong competitive position and low cost factor assure favorable earnings trend for this leader. Indications point to early increase in dividend.
Byers, A. M.	5.16 b	7.33	1.50	1.25	7.0	4.2	21¾	24⅞-17	C+2	Completion of hot strip mill promises lower costs for wrought iron skelp and improvement in profit margins. Regular 25¢ quarterly rate seems safe.
Carpenter Steel	5.58 c	4.32	2.50	2.50	7.7	5.8	32¼	35¼-25½	B2	Pickup in demand for stainless and specialty steels, in line with consumer goods, should sustain earnings and assure holding $2 dividend.
Colorado Fuel & Iron	8.46 c	5.04	2.00	1.25	13.0	1.8	15⅝	19 -12⅛	C+2	Rebound in sales and improvement in margins points to earnings recovery, but net well below June 1949 year is indicated. $1 dividend seems safe.
Continental Steel	1.27	3.24	1.75	1.50	10.9	12.6	16	16⅜-11¼	C+1	Recovery in demand for wire products and better profit margins indicate improved results for 1950. Regular $1 and extra dividend safe.
Crucible Steel	.41 d	4.15	Nil	Nil	......	......	18	24 -14	C+1	Benefits of modernization program expected to bolster earnings and help restore full preferred dividends. No common payment in 1950.
Follansbee Steel	......	5.29	1.00	3.00	7.3	......	13⅜	24⅛- 9⅛	C2	Urgent demand for light steels strengthens position of marginal producers temporarily, but keen competition looms later in year.
Inland Steel X	5.11	7.88	3.00	3.00	7.6	7.7	39½	41¾-30	B2	Strong competitive position and low costs should assure 1950 net comparing favorably with last year and maintenance of $3 in dividends.
Interlake Iron	3.15	3.04	1.50	1.50	10.5	4.5	14¼	14⅞- 9⅜	C+2	Steadier operations should lower costs, but only moderate gain in earnings indicated. Maintenance of 25¢ quarterly dividend safe.
Jones & Laughlin Steel	7.50	12.01	2.60 a	2.00	8.5	4.0	30½	33¼-21	B2	Benefits of modernization and plant expansion should become more evident. Ample coverage for $2.60 dividend indicated in earnings.
Keystone Steel & Wire	2.00 c	3.03	1.00	1.00	5.3	9.3	18¾	19½-11⅛	B2	Strong competitive position likely to improve earnings this year and afford wide coverage for $1 dividend. Fence wire sales stable.
National Steel X	16.02	16.35	5.50	5.00 a	5.4	6.3	101½	103¼-73½	B2	High rate of automotive production and strong competitive position are favorable for this concern. Higher dividend indicated after stock split.
Republic Steel	7.56	7.61	3.00	2.25 a	11.5	3.4	26⅛	27⅜-17	B2	Good demand for light steel in auto and appliance industries points to favorable earnings this year, thus affording coverage for $2 dividend.
Sharon Steel	5.39	14.96	2.00	2.50	7.2	5.1	27½	37⅞-21⅝	C+1	New facilities tending to sustain competitive position. High rate of operations points to earnings recovery and maintenance of $2 dividend.
Sloss-Sheffield Steel & Iron	5.34	5.35	2.00	1.70	8.4	4.4	23¾	24 -16⅝	C+3	Slackening demand for pipe tends to cloud outlook for later months, but earnings expected to cover $2 dividend already declared for this year.
Superior Steel	2.40 d	3.44	1.00	1.25	8.5	......	11⅞	14¾- 8¾	C+1	Shortages strengthening position of marginal producers may give temporary lift to earnings, but prospect for dividend resumption seems dim.
U. S. Pipe & Foundry	6.48	8.14	4.00	2.80	9.4	6.5	42¼	49½-38	B3	Satisfaction of large deferred demand for water mains and other pipe projects points to lower net profit, but $3 dividend already declared.
U. S. Steel X	5.39	4.00	2.25	1.66	7.3	5.7	30⅞	31⅞-20¼	B2	Industry leader assured of another good year, as suggested by dividend increase to $2.60 basis. Long range expansion may require new financing.
Wheeling Steel	10.68	23.24	4.00	2.25	8.2	4.5	48½	50 -29¾	B1	Benefits of large expansion program expected to boost earnings this year, pointing to higher dividend after forthcoming 2-for-1 split.
Woodward Iron	7.39	7.36	3.50	3.00	10.0	4.7	34⅞	35¾-22	B2	Despite possibility of sale of ore properties, outlook appears unsettled by keener competition in merchant iron. Dividend policy is liberal.
Youngstown Sheet & Tube X	18.97	21.32	6.00	5.00	7.4	4.2	80¼	82⅛-53⅝	B2	Strong financial position and high earnings raise hope of stock split and dividend increase. Good demand points to continued large profits.

†—Based on 1949 actual or estimated earnings.
‡—Based on 1949 dividends.
(a)—Plus stock.
(b)—Year ended September 30, 1949.
(c)—Year ended June 30, 1949.
(d)—Deficit.
(E)—Estimated.

Appraising Strength of
The AUTO Industry



By STANLEY DEVLIN

Following completion of an all-time record year, the automobile industry is racing at full speed towards a goal that admittedly may bring slightly lower production and sales; but even so, 1950 will likely prove to be the second best year in history. Orders on hand assure a record output of passenger cars in the first six months, unless the Chrysler strike is unduly prolonged, although anticipated slackening in demand during the last half year may tend to reduce the full 1950 total.

Optimism over the current year's outlook is expressed not only by many leaders among the auto makers but by Government sources as well. A representative estimate by manufacturers is furnished by an executive of General Motors Corporation, who points out that while deferred demand should be amply satisfied by mid-year and sales may develop a downtrend, total sales of cars and trucks in 1950 could still come close to 6 million compared with 6.2 million in 1949; and even if the figure proved to be nearer 5.5 million, it would still establish a second-high record.

The Department of Commerce in January viewed the outlook with scarcely less optimism, predicting a decline of from 10% to 20% from last year's record level, but pointing out that the maximum dip suggested would still indicate an output of 5 million powered vehicles, an amount previously reached only in 1929, 1948 and last year.

Now that completion of postwar expansion and modernization programs permits substantially increased output and settlement of the steel and coal strikes assures an ample supply of materials, the greatest competitive battle in history is under way to capture the waning deferred demand, as well as to attract new car buyers as never before. It is interesting to note that while leading managements freely concede the approach of lessened demand, confidence is expressed that their individual companies are all set to land a bigger slice of the available pie.

With the peak spring selling season at hand, virtually all components in the passenger car division of the industry, except strike-bound Chrysler, are operating at capacity and selling cars almost as fast as they can be produced. R. L. Polk & Company, statisticians for the industry, estimate that new car registrations in January will exceed 365,000 units, at least 80,000 units more than in any January for the past 25 years.

Evaluating Sales Potentials

It is easier to appraise sales potentials of most of the car manufacturers until mid-summer than thereafter. Those independents of established reputation and good dealer organizations, such as Hudson, Nash, Studebaker and Packard are offering attractively designed and improved new models at reduced prices, with sufficient appeal to compete successfully with the "Big Three" in near months. While officials of most of the independents refute any suggestion that they will not be able to maintain their established share of the market in the second half year, it looks as if they may have some difficulty in substantiating their claims, that is unless labor troubles hamper the operations of their larger competitors. Sheer weight and large promotional outlays of the "Big Three," plus an aggressive and highly trained group of dealers, provide a substantial advantage, while a huge turnover might permit further price cuts which their competitors would find difficult to meet.

Despite uncertainties as to demand in the summer

and fall months, high level volume and earnings in the first half year should cushion any potential declines in the later months, thus indicating that 1950 as a whole should prove very satisfactory to most of the better situated car builders. It is also possible that apprehension over the approach of slackening demand may prove needlessly great, as was the case in most industries last year. Since population has increased to more than 150 million, national income has held steady around $210 million, and more than 15 million prewar cars need replacement, demand for new vehicles may remain stronger and last longer than currently assumed by some students of the industry.

In no small manner, the foregoing statistics strengthen the general optimism that now pervades

Statistical Position of Automobile and Truck Manufacturers

	Net Sales 1949	Net Sales 1948	Net Per Share 1949	Net Per Share 1948	Div. 1949	Div. Yield	Price-Earnings Ratio†	Recent Price	Range 1949-50	Investment Rating	COMMENTS
Autocar	......	$30.8	Def. E	$ .59	Nil	......	......	6½	8 - 4⅜	C2	Reduced demand for heavy trucks in highly competitive field adversely affecting sales and earnings. Chances for dividend resumption quite remote.
Chrysler X	$2,084.6	1,567.9	$15.19	10.25	$5.25	7.9	4.3	66½	68⅜-44⅛	B3	Operations halted by strike since January 25, with serious effect on first quarter earnings. Settlement should bring rapid recovery and ample resources should stabilize quarterly dividends close to $1.50 per share.
Diamond T	......	37.4	.75 E	2.64	1.00	8.2	16.2	12¼	13½- 9¼	C+2	Excellent long term record as truck manufacturer suggests somewhat improved earnings from 1949 depressed level. 25 cents quarterly dividends may continue.
Federal Motor Truck	——	14.0	Def. E	.27	Nil	......	——	4⅜	6⅜- 3⅜	C+2	Some improvement in 1950 sales of trucks and buses possible but earnings unlikely to warrant resumption of dividends in near future.
Fruehauf Trailer	——	84.7	2.50 E	4.16	2.00	9.9	8.0	20⅛	23⅝-16½	B2	Parts and service revenues may cushion lower sales of trailers. Last year's coverage of 50 cents quarterly dividends slight and their stability uncertain.
General Motors X	5,700.8	4,701.7	14.64	9.72	8.00	10.4	5.2	76½	78⅜-51⅞	B2	1950 earnings should continue excellent, though not quite equal to 1949. Dividends should be dependable at least $1.50 per share quarterly, possibly supplemented by later extra.
Hudson Motor Car	259.5	274.7	5.30	7.28	1.70 a	12.3	2.6	13⅞	15½- 9	C+2	Outlook encouraging for satisfactory earnings, though probably below 1949. Conservative dividends at 25 cents quarterly rate, plus extras, indicated.
Kaiser-Frazer	......	341.5	Def. E	2.27	Nil	——	——	6⅜	9¼- 2⅞	C2	Company staking all on success of new low-priced car to appear on market soon. This could possibly restore profitable operations but payment of any dividends remote.
Mack Trucks	78.3	109.1	2.67 d	1.56	Nil	——	——	12¾	15⅜- 9½	C+2	Strongly financed truck maker, but heavy overhead tending to restrict profit potentials under severe competition. Earnings may improve but resumption of dividends unlikely in near term.
Nash-Kelvinator	364.1 b	302.8	6.04	4.64	2.15	12.5	2.8	17⅛	18½-10½	C+2	Outlook enhanced by high level demand for both cars and home appliances. 1950 earnings not likely to match 1949 but ample coverage of dividends indicated at 1949 annual rate of $2.15.
Packard Motor	214.1	231.9	.51	1.01	.50	13.5	7.4	3⅞	4⅞- 3¼	C+2	Price cuts and heavy expenses have reduced margins. Earnings potentials in 1950 obscure but no great improvement probable. Early resmption of dividends would surprise.
Reo Motors	......	38.3	Def. E	.23	Nil	......	......	11	12⅝- 6⅝	C2	Sharp drop in demand for trucks and buses adverse to earnings. Prospective pickup likely but outlook for resumption of dividends dismal.
Studebaker X	473.1	383.6	11.70	8.12	2.50	8.7	2.4	28½	29¾-16½	C+2	1950 earnings may recede somewhat but still remain at relatively high level. 60 cents quarterly dividends seem assured, and a liberal year-end extra possible.
Twin Coach	......	21.7	Def. E	.02	Nil	......	......	5¼	6⅞- 4¼	C+2	Long term prospects fair, though reduced demand for buses tending to depress volume. Arrears on preferred preclude near term common dividends, aside from nominal earnings.
White Motor	77.3	97.8	1.41	4.98	1.15	7.1	11.4	16⅛	16⅞-12½	C+2	Strong trade position may bring slightly improved volume and earnings in 1950. 25 cents quarterly dividend not widely covered but protected by ample finances.
Willys-Overland	142.3 b	175.3	1.04	2.39	Nil	......	6.0	6¼	7⅞- 4¼	C3	Volume in downtrend under impact of heavy competition. Slim prospect for dividend payments over the medim term.

†—Based on 1949 earnings. (a)—Plus stock. (b)—Year ended September 30, 1949. (e)—Estimated.

the industry. C. E. Wilson, president of General Motors, for example, has stated that his company expects to equal or exceed its 1949 production record, and all of his division heads concur with this opinion. Managers of the Oldsmobile, Chevrolet, Pontiac and Buick divisions have all projected a yearly output close to or above the year before, and their present momentum may validate their hopes. Chevrolet by May 1 plans to produce as many as 620,000 cars, or within 100,000 of the number that rolled out of its factories in the entire first half of 1949.

Other Production Goals

Similarly, Ford plans to produce at least 600,000 cars by July, supplemented by 150,000 Lincolns and Mercurys. Chrysler, prior to the strike, had set equally ambitious schedules that will need revision when the work interruption is terminated. Hudson counts on hard selling by dealers to keep 1950 output close to last year. Packard predicts that its improved models with Ultramatic drive will boost sales above those of 1949. Studebaker's president, H. S. Vance, expects that production by his concern in the first quarter will be of record proportions, perhaps 30% above that in the same 1949 period, and that after allowing for somewhat reduced output in the last half year, 1950 as a whole should prove very satisfactory.

An important factor contributing to general confidence in auto circles is strong statistical evidence that a rise in replacement car sales will at least partially offset a prospectively lower demand for cars by first time new car buyers. The use of the expression "deferred demand" in the auto industry carries a double meaning in that it embraces both unsatisfied intentions by those consumers who may have never owned a car before, and demand stemming from car owners with obsolete or worn out models. Now that is possible to walk into the premises of most dealers and obtain prompt or early delivery, demand from first time owners naturally should ease somewhat, although as long as economic conditions remain fairly stable, it should continue in substantial proportions.

While it is true that the much-improved construction of passenger cars in recent years, together with the ready replacement of all parts from engines to gadgets, has tended to increase their usable age, it is equally certain that physical deterioration and obsolete design are offsetting factors.

Demand Indicators

R. L. Polk & Company estimate that at the end of 1949, the number of passenger cars on the roads had risen to a peak of more than 35 million, a 20% gain since 1941, and 13.4 million were of prewar vintage. In contrast to a normal scrappage of 1.6 million cars annually, only 488,000 were retired in 1946, 855,000 in 1947 and 1.2 million in 1949. It accordingly seems logical to expect a continuing uptrend in replacement demand for cars. For the same reason, demand for replacement parts that importantly swell revenues of the auto makers should continue quite substantial. In combination, these influences should aid in stabilizing volume of the industry.

There are several factors, however, that should temper optimism over the 1950 outlook for the industry. Truck production in 1949, for example, declined to around 1.1 million units from the boom level of 1.36 million in 1948, and the consensus of opinion indicates a further drop to 850,000 units in the current year. Reasons advanced are the gloomy outlook for exports, satisfaction of demand created by wartime shortages, and reduced purchasing power of farmers who presently own almost a third of all trucks in use.

As with passenger cars, though, sight must not be lost of the increasing replacement demand for trucks. At the end of last year, about 7.6 million trucks were running in contrast to only 4.87 million eight years before. Considering greatly increased mileage and heavy wear and tear, it would seem that nearly 2 million trucks must be about ready for the scrap heap, an amount equal to nearly twice last year's production.

As for export sales, shipments abroad of passenger cars and trucks declined to around 300,000 units last year, and dollar shortages may cause a further dip in 1950. Industrial recovery or expansion all over the world, however, has relied strongly on extensive use of American trucks, often in fleets, so that export orders should continue to be fairly substantial. Shipments of truck parts overseas last year, rose significantly. While domestic farm income is receding, agricultural resources remain very high and the bulk of everything from farm animals to crops is now shipped to market via trucks. Although a definite buyers market for trucks has arrived, no marked shrinkage in demand seems probable.

Annual Reports

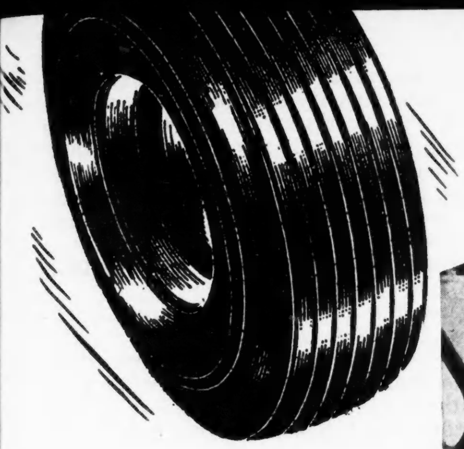
At this writing, only a few of the passenger car and truck manufacturers have issued their 1949 annual reports, but between those who have done so, production statistics and interim statements, last year's picture becomes pretty clear. It seems certain that the "Big Three" last year captured an increasing share of the total car market from their competitors, both as to passenger cars and trucks. The proportion attained by this dominant group probably rose to around 86% compared with 80.3% in 1948.

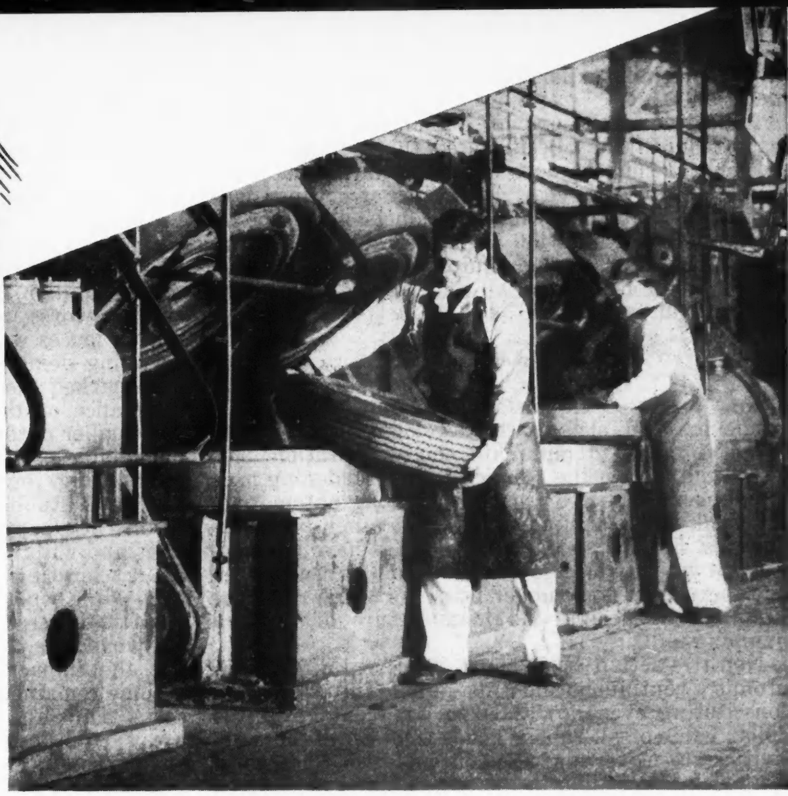
On record sales volume of $2 billion in 1949, margins of Chrysler widened and net earnings soared to $15.19 per share versus $10.25 the year before.

Highlights of the amazingly favorable report of General Motors Corporation were: (1) unit sales of 2,764,397 cars and trucks produced by GM plants in the United States and Canada; (2) dollar volume of $5.72 billion from sales of automobiles, parts and broadly diversified products; (3) net income of $656 million or $14.65 per share compared with $9.72 in 1948; (4) maintenance of net profit margins close to the prewar average of 11.5% in the 1936-41 period; (5) capital expenditures of $130 million in 1949; (6) retirement of all funded debt; (7) payment of an increased part of earnings as dividends.

Although Studebaker's gain in production did not equal that of its larger competitors, sales in 1949 rose $90 million above 1948 and the net profit ratio to volume advanced to 5.83% compared with 4.98% the year before. Net earnings accordingly climbed to $11.70 per share against $8.12 in 1948.

In the year ended September 30, 1949, Nash-Kelvinator reported a volume gain of 21% and net profits advanced to $6.04 per share from the 1948 level of $4.64. Under the impact of severe competition, rising costs and re- (*Please turn to page* 700)





Improved Earnings

Outlook for RUBBERS?

By GEORGE L. MERTON

Following earnings declines last year, major rubber companies are looking more hopefully into 1950 as a year which may see elimination of the squeeze between high postwar costs and prewar selling prices. The first corrections of this situation, in the form of two 3½% price increases for replacement tires in the fourth quarter of last year, didn't come in time to benefit 1949 earnings. The effect, rather, was merely to restore part of the price reductions made earlier in that year. 1949 earnings statements therefore reflect the year's "unrealistic" price-cost relationships. Sales were off but earnings even more so.

At that, 1949 was not a bad sales year, though following the postwar bulge in production and shipments, some decline was inevitable. Total output of automotive casings eased off to 76.3 million units from 81.3 million in 1948; shipments held relatively better at 76.5 million compared with 77.8 million units the year before. Inventories at the end of the year were little changed, aggregating some 10.6 million units compared with 10.7 million at the end of 1948. Total consumption of new rubber, for all purposes, last year amounted to 988,618 long tons, about 7½% under the tonnage consumed in 1948.

Indications are that over-all tire shipments in 1950 will not differ materially from those of last year. While on the one hand, a decline in original equipment demand is anticipated in line with projected lower auto production in the second half of the year, some increased in replacement requirements should materialize. The latter expectation is logically based on the record number of motor vehicles on the road and their greater usage; also on the abnormal proportion of old cars in use. Sales figures will further reflect the 7% price advance instituted on replacement tires in the late months of 1949, and the 5% boost made by major companies in original equipment tire prices, effective January 1. Further rises may be forthcoming later. Recent management comments on the price situation distinctly point in this direction.

As to the extent of coming shifts in demand, Akron officials are fairly unanimous in predicting an increase in 1950 of between 5% and 10% in 1950 passenger replacement tire sales, and also gains in truck and bus tire demand. The prospective drop in new equipment sales is less readily predictable, depending on the demand trend for new automobiles. But the view is widely held that any decline after mid-year should be readily offset by higher replacement tire sales.

Cost Trends and Labor Factors

However, while sustained overall unit sales and higher prices should combine to raise dollar volume, there are some offsetting aspects regarding costs and profit margins. The price of natural rubber, of which the country last year consumed about 576,461 tons (more than half of total consumption) has been firming recently, and higher labor costs loom ahead by way of new or improved pension systems. The latter may not be felt until the second quarter of this year, but they add substance to the belief that still higher tire prices are likely to be forthcoming. The pension trend in the industry is illustrated by the agreement recently concluded between Goodyear and the CIO United Rubber Workers.

The rubber industry, however, has long ceased to be "just tires." Mechanical rubber goods and industrial products demand has become increasingly important and continues quite active, though the huge postwar order backlogs have virtually disappeared by now. Further growth is indicated for such lines as foam rubber, chemicals and plastics, as well as certain military equipment. Foam rubber latex, increasingly used for transportation seating, furniture and mattresses, remains one of the industry's most promising product. Goodyear and Firestone

have materially expanded output capacity for this material.

Indicative of the growth of non-tire lines in the last decade, it has been stated that total sales of mechanical rubber goods last year were more than double any prewar year. 1950 sales of belting, hose and other industrial rubber products alone should equal or exceed the $450 million established during 1949; the latter, though quite high, was however $110 million below the all-time record volume of $560 million set in 1948.

Areas of Expansion

New areas of expansion have appeared in this particular field, such as the development of rubber-to-metal parts to eliminate shock, vibration and wear, and also in the plastics field. Broadening uses for rubber parts are appearing among automotive, chemical, farm equipment, oil and other basic industries. For instance, rubber springs have been developed which will ease the riding on farm tractors, and there exist now rubber bearings which radically simplify the design and manufacture of oil well pumping units.

Non-tire activities, in short, represent a field that promises continuous and considerable future growth, constituting even now a sizable percentage of the dollar value of all rubber goods sold. Since these activities are newer and less concentrated, wage rates are much lower than in the tire-building field. Even more important, since such products are sold to many markets, there is not the concentration of buying power as found in the automobile manufacturers group. Margins therefore are generally wider than on tire sales, and wide product diversification moreover helps to soften both seasonal and cyclical fluctuations in operations. Eventually it is thought that over half of the industry's total sales and an even larger proportion of profits will be derived from non-tire lines.

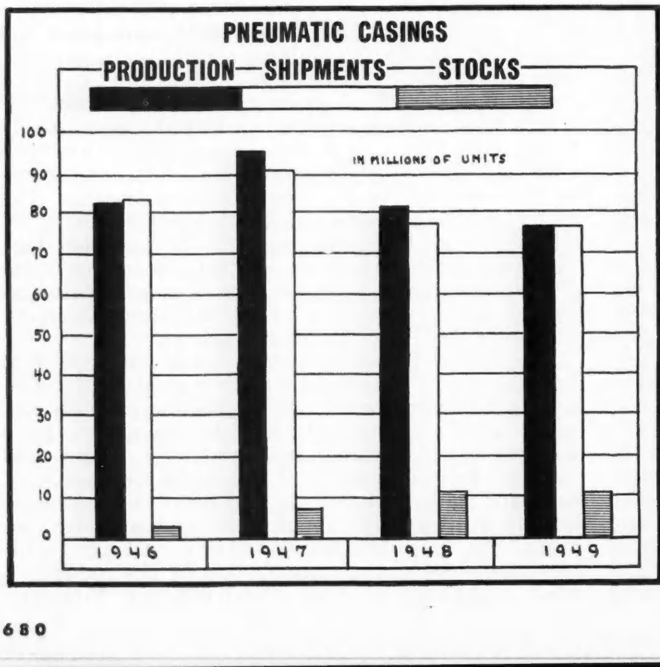
As far as tires are concerned, industry capacity during the latest war was increased to such an extent, to meet military needs, that the backlog of replacement demand and the building up of adequate inventories could be satisfied in 1948. This resulted in 1949 in an excess capacity of production over declining demand, keen competition, particularly in the original equipment field, and reduced selling prices in the face of increased costs. Hardest hit by the price-cost squeeze were the small firms, whose profits largely evaporated or gave way to red ink. They mainly depended on replacement sales and that market had shrunk from 49.1 million units in 1948 to 43.4 million last year.

Even worse was the impact of rising costs. Jacking up prices was not a feasible way out in view of declining demand. Price wars and hot competition had marked the industry for years and what with reluctance of the big competitors to boost prices, the smaller outfits found themselves in a thoroughly unenviable position.

The "big four"—Goodrich, Goodyear, Firestone and U. S. Rubber—were somewhat differently situated. They supply most of the original equipment tires and with new cars rolling off assembly lines at an accelerating pace, such demand was flourishing even while replacement demand was shrinking. They too felt the cost squeeze and auto makers undoubtedly made the best of a highly competitive situation, but the impact was less severe—largely because volume remained quite high, helping keep down unit costs. Thus the big producers were much farther away from break-even volume than most of the smaller units; besides, they had the benefit of marked diversification as previously described.

Even so, results among the leading companies varied considerably, as shown by the following comparison (see also appended tabulation): Whereas net sales of Goodrich dropped 7.6%, reported net per share was off 13.4%. Both as to sales and reported per share earnings, this is by far the best showing in the group. In comparison, Firestone had an 8.5% decline in sales, but per share net dropped some 36%. Goodyear, whose sales declined 10.5%, reported net profits on a per share basis 18% lower. Though volume of U. S. Rubber fell off only 9.5%, per share net was down about 34%.

Industry problems were more incisively highlighted by the results of the medium and smaller companies: General Tire's sales fell off 12.6% but reported net profits per share were down fully 87%. Dayton Rubber and Seiberling Rubber reported deficits.



Special Reserves and Write-Offs

It should be mentioned that the foregoing percentages of earnings declines are after special reserves and write-offs which in some cases have been substantial. Before reserves, the earnings decline of Firestone, for instance, would have been limited to 27% instead of 36%. Goodyear, which reported net a good deal higher than earlier estimates had allowed for, charged $3.9 million to last year's operations because of continuing restrictions on the remittance of earnings in foreign countries. Before this charge, the drop in earnings would have been correspondingly smaller.

Goodyear, incidentally is now feeling the impact of the strike at Chrysler, for whom it is the leading supplier of tires and to whom it also furnishes a substantial amount of foam rubber used in seat cushioning. As

Statistical Position of Leading Tire and Rubber Companies

	Net Sales 1949 —($ mill.)—	Net Sales 1948 —($ mill.)—	Oper. Margins 1949 %	Oper. Margins 1948 %	Net Per Share 1949	Net Per Share 1948	Div. 1949	Div. Yield %	Price-Earnings Ratio	Recent Price	Investment Rating	COMMENTS
Dayton Rubber	$23.5 a	$27.3	d	4.4%	$ .38 d	$1.44	$ .90	6.3%	....	14⅜	C+1	Better tire prices and large proportion of non-tire business should lead to profit recovery though keen competition may limit potentials. Dividend outlook remains doubtful but reduced payments may continue.
Firestone Tire & Rub. X	579.6 a	633.8	6.2%	8.4	8.81	13.83	4.00	6.8	6.6	58⅝	B1	Substantial earnings are indicated over medium term, assuring wide dividend coverage at 1949 rate of $1 quarterly. Substantial yield holds attraction.
General Tire & Rubber	92.5 b	105.9	1.7 c	7.2 c	.94	7.33	2.00	8.5	25.1	23⅝	C+1	Improved price-cost relationships point to probability of sharp earnings recovery in 1950, with correspondingly more satisfactory dividend coverage. If so, 1949 dividends may be repeated.
Goodrich, B. F. X	387.9	419.7	10.1	12.6	14.36	16.57	5.50	6.5	5.8	84	B1	Earnings should continue excellent, affording ample dividend coverage with room for higher payments. High yield attractive.
Goodyear Tire & Rub.	633.5	704.8	6.9	8.5	8.40	10.25	4.00	8.0	5.9	49⅞	B1	$1 quarterly dividend rate amply safeguarded by prospective 1950 earnings which may show moderate improvement over last year.
Lee Rubber & Tire	31.9 a	35.7	6.1	8.9	4.78	7.87	3.00	6.3	9.8	47	B1	One of the best of the small units. Moderate earnings improvement indicated this year, assuring satisfactory dividend coverage.
Norwalk Tire & Rubber	....	6.3 f	——	d	e	.48 d	Nil	....	....	2½	C—	Company in process of reorganization under voluntary petition. A purchase offer by outside interests is being considered. Stock is an outright gamble on outcome of these moves.
Seiberling Rubber	25.3	28.4	d	2.7	1.93 d	.74	Nil	....	....	6⅛	C+1	About 90% of sales derived from tires, tubes, sold in replacement market. Some earnings improvement indicated, but outlook for dividend resumption uncertain.
U. S. Rubber	517.4	572.0	5.0	6.5	5.62	8.48	3.00	7.0	7.7	43⅜	B1	Earnings improvement likely and $3 dividend should be safe. Interim payments advanced from 50c to 75c in apparent desire to equalize payments more nearly over the year.

(a)—Year ended October 31, 1949.
(b)—Year ended November 30, 1949.
(c)—Pre-tax margin.
(d)—Deficit.
(e)—Deficit indicated.
(f)—Year ended September 30, 1949.

a result of this strike, Goodyear was forced to cut tire output severely and place production more or less on a day-to-day basis. This will doubtless find reflection in first quarter results.

The experience highlights the uncertainty of earnings predictions for the tire industry in the event of other prolonged stoppages in the auto industry. General Motors in May is in for a pension tussle with the U.A.W. that may also lead to a tie-up. If so, tire industry sales are bound to be affected. To what extent any such loss of sales can be made up for later remains to be seen.

On the other hand, as far as replacement demand is concerned, the prospect of still higher tire prices later in the year may well spur demand "to beat the boost." If so, any resultant sales upsurge may at least partially be at the expense of subsequent volume. These trends need watching, lest a temporary sales and earnings spurt be confused with a permanent trend, or a marked strengthening in the basic demand situation.

Goodrich, showing the smallest earnings decline percentagewise even after special reserves of $5 million (versus $8 million in 1948) chalked up this record despite certain handicaps. Seven of the company's plants, employing nearly two-thirds of its production workers, were not in operation during five weeks of the third quarter because of a strike. Thus whereas profits for the first nine months had shown a drop of 24.9% from 1948, the percentage decline by the end of the year had been narrowed to 13.4%.

If fourth quarter results are to be any criterion, and barring strike interruptions in the future, the company this year should do quite well; net per share in the last quarter amounted to around $6. Seasonal variations, however must be taken into consideration in appraising full year earnings. potentials.

New Product Development

The company is placing increasing emphasis on new product development and product improvement. One of its latest contributions, the Puncture-Sealing Tubeless Tire, was placed on the market in 1948 and is enjoying mounting sales as production increases. The company also is a leading maker of "cold rubber," for the production of which a continuous process method has recently been adopted.

Enlarged markets for replacement tires, foam rubber and rubber industrial products is anticipated by Firestone in the current year which marks the company's fiftieth anniversary. Earnings in 1948, as already shown, were off rather more drastically than sales which declined 8.5%. Reported net income was, however, after a special deduction of $5.1 million. The company obtains about two-thirds of sales from tires and tubes, and the rest from a wide list of mechanical rubber goods, sponge rubber, plastic products, and (*Please turn to page* 700)

Financial Survey of Specialty and Unclassified Stocks

	Net Per Share 1949	Net Per Share 1948	Dividends Per Share 1949	Dividends Per Share 1948	Div. Yield† %	Price-Earnings Ratio‡	Recent Price	Range 1949-50	Investment Rating	COMMENTS
Abbott Laboratories W	$3.10 E	$2.98	$1.80	$1.20	3.5%	16.4	51	54½-37	A2	Increased output of old and new items points to stable or possibly larger volume and earnings. Dividends may moderately exceed those of 1949.
American Bank Note	2.64	3.71	2.00	2.20	9.7	7.7	20½	27 -20	B3	Somewhat lower volume probable in first half year. Moderate decline in 1949 earnings may extend but dividends at recently reduced rate of 25 cents seem secure.
American Can	10.02	9.71	4.00	4.00	3.6	11.0	111	119 -81	A2	Prospects good for continued strong demand for metal containers by canning and brewing industries. Ample coverage of 75 cents quarterly dividends assured.
American Chain & Cable	4.60 E	5.32	2.00	2.00	8.1	5.4	24¾	26⅜-19½	C+3	Slight further downtrend in earnings possible but payment of 40 cents quarterly dividends and a year-end extra seems pretty certain.
American Chicle W	3.31	3.92	2.50	2.50	5.0	15.0	49½	50 -39⅜	A+2	Steady demand for chicle at firm prices enhances 1950 earnings potentials. 50 cents quarterly dividends secure. Year-end extra probable.
American Home Products W	2.77	2.36	1.70	1.45	5.2	12.0	32⅞	34 -24¼	A2	Strong trade position, improved facilities and enlarged offerings encourage optimism. 1950 total dividends should equal or exceed $1.70 paid last year.
American Ice	1.08	.98	.60	.60	7.5	7.4	8	9⅞- 5¼	C2	Outlook clouded by increased competition from refrigeration. Payment of moderate dividends at uncertain intervals indicated.
American News	3.51	5.33	2.50	2.25	7.0	10.3	36¼	36¾-32	B2	Long record of unbroken dividends should continue, probably at 25 cents bi-monthly rate supplemented by varying extras.
American Safety Razor	.35 E	.47	.50	.75	6.6	21.4	7½	9¾- 6½	B2	Heavy competition and rising expenses cutting into earnings. Resumption of dividends seems unlikely in near term, following recent lapse.
American Ship Building	4.47 c	1.47	3.00	3.00	7.5	9.0	40	43½-37	C+3	Satisfactory backlog orders should create reasonable earnings in 1950, though probably below 1949. Dividends at $3 annual rate paid in 1948-49 seem rather liberal relative to earnings.
Archer-Daniels-Midland	7.37 c	7.55	2.00	2.00	5.1	5.3	39	42½-26¾	B2	Advanced prices should stabilize 1950 earnings. Wide coverage of earnings over conservative 50 cents quarterly dividends should continue.
Bristol Myers	1.78	2.94	1.60	1.60	6.2	14.3	25⅝	33 -25⅜	A2	Lower prices for specialties reduced 1949 net. Earnings' spread over dividends slight but strong finances may create stable payments.
Bush Terminal Co.	.78	1.28	a	a	....	11.5	9	9½- 7	C2	Earnings potentials obscure, but directors recently paid small cash dividend of 20 cents, following two years when only dividends in stock were paid.
Canada Dry	1.04 h	1.31	.60	.60	5.1	11.3	11⅞	12⅞- 9⅝	B1	1950 earnings will likely improve somewhat from 1949 lower level. No change in 15 cents quarterly dividends may occur.
Catalin Corp. of America	.35	.24	.15	.15	2.6	16.4	5¾	7¼- 3¼	C2	Unimpressive earnings seem likely to continue. Payment of a small year-end dividend possible but not too certain.
C. I. T. Financial X	6.81	4.57	3.00	2.00	4.5	9.7	66	66¼-42½	B1	Further uptrend in earnings likely as acquisitions of auto and other time paper increase. 1950 total dividends should at least equal $4 per share.
Colt's Mfg.	2.65	.56	2.00	Nil	4.2	18.0	47½	47¾-33¾	C1	Larger sales of military items and unrelated products creating uptrend in earnings. Strong finances may support payment of irregular diviednds. Company inviting tenders for common stocks.
Commercial Credit X	9.16	8.56	4.00	3.20	6.4	6.7	62	64⅜-46⅛	B1	Earnings should expand as instalment paper holdings mount and industrial subsidiaries recover from 1949 recession. Recently advanced $1.20 quarterly rate should easily hold.

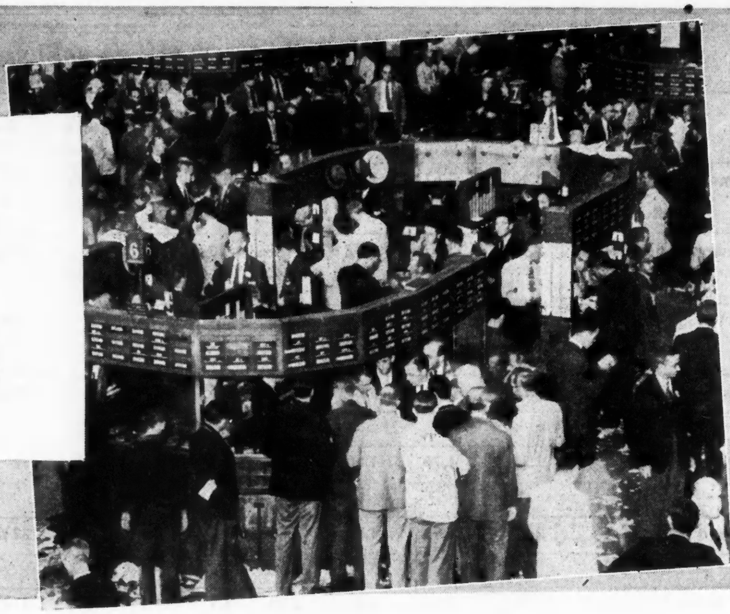
‡—Based on 1949 actual or estimated earnings.
†—Based on 1949 dividends.
(a)—Paid 5% in stock.
(b)—Plus stock.
(c)—Year ended June 30, 1949.
(d)—Deficit.
(E)—Estimated.
(f)—Year ended July 31, 1949.
(g)—Year ended October 31, 1949.
(h)—Year ended September 30, 1949.

Financial Survey of Specialty and Unclassified Stocks (Continued)

	Net Per Share 1949	Net Per Share 1948	Dividends Per Share 1949	Dividends Per Share 1948	Div. Yield† %	Price-Earnings Ratio‡	Recent Price	Range 1949-50	Investment Rating	COMMENTS
Diamond Match W	3.40 E	2.62	2.00	2.00	5.4	10.7	36½	40 -31⅝	A2	Diversified output beneficial to volume and earnings. Last year's uptrend in net may level off but no variation in liberal dividend policies probable.
Froedtert Grain & Malt	3.44 f	1.57	.82 b	.75	4.8	5.0	17	19⅛-11¾	B—2	Enlarged facilities and lower grain costs favorable factors, as demand continues at high level. 25 cents quarterly dividends well protected.
Gar Wood Industries	.53 g d	1.89	Nil	Nil	......	......	5	6¾- 3⅞	C2	No near term improvement in difficult operating conditions seems in sight. Resumption of dividends not an early prospect.
Gillette Safety Razor X	6.26	6.80	3.25	3.00	8.5	6.0	38	38¾-24	B2	Investment in Toni Wave enterprise holding over-all earnings at satisfactory level. 75 cents quarterly dividends plus occasional extras appear secure.
Greyhound	1.22	1.70	1.00	1.00	9.2	8.8	10⅞	12 - 9¾	B2	Increased operating costs restricting profits to a point where coverage of 25 cents quarterly dividends is rather narrow, but they may prove stable.
Lambert Co.	2.50 E	1.90	1.50	1.50	7.0	8.6	21½	22¾-17¼	B2	Satisfactory demand for special proprietaries should stabilize earnings in 1950, providing fair protection for 37½ cents quarterly dividends.
Life Savers W	3.00 E	3.68	2.20	2.50	6.2	11.8	35½	37¾-34⅛	A2	Pickup in demand from trade with reduced inventories should hold or expand earnings from 1949 slightly reduced level. 40 cents quarterly dividends safe and year-end extra may be paid.
Nopco Chemical	2.46	2.26	1.60	1.60	5.4	12.0	29¼	30 -21¼	B2	Margins on sales of industrial chemicals should prove satisfactory in current year. No change in 40 cents quarterly dividends anticipated.
Rexall Drug	E d	.41	Nil	Nil	......	......	5⅞	6¾- 4⅛	C+2	Inventory adjustments and heavier operating costs create difficulty in keeping above break-even point. Resumption of dividend payments soon improbable.
Savage Arms	3.29	2.85	1.75	1.75	10.4	5.1	16¾	17½- 9⅞	C2	Improved demand for divertified output enhances outlook for 1950. Rather steady earnings probably will sustain dividends at 1949 level.
Sheaffer (W. A.) Pen	2.85 E	3.06	1.60	1.30	8.6	6.5	18½	21⅞-11¾	B2	Strong trade position a stabilizing factor in highly competitive year. 10 cents quarterly dividend recently bolstered by payment of $1.15 extra.
Simmons	4.50	7.10	2.50	2.50	8.7	6.4	28¾	29¾-22	B1	Earnings last year adversely effected by reduced demand, but improvement indicated for first half of 1950. No change likely in 50 cents quarterly dividends.
Sperry	3.00 E	4.32	2.00	2.00	6.8	9.7	29⅛	29¼-22¾	B1	Heavy inflow of military orders likely to offset decline in earnings from farm equipment division. Dividends at annual rate of $2 appear secure.
Sterling Drug W	3.15 E	3.24	2.25	2.25	6.0	12.0	37¾	41½-35	A2	Favorable outlook for sustained demand for company's popular remedies suggests stable earnings this year. Payment of 50 cents quarterly dividends and a modest year-end extra seems likely.
U. S. Lines	3.63	2.24	2.00	2.50	12.0	4.6	16⅞	18 -11¾	C2	Heavy ocean traffic, aided by Government subsidies, should maintain satisfactory earnings, although in view of heavy outlays for new ships, 50 cents quarterly dividends appear pretty liberal.
Vick Chemical W	2.79 c	2.70	1.20	1.20	5.4	8.0	22¼	25 -20	B2	Stable demand for company's medicinal specialties and diverse chemical output favors current outlook. 30 cents quarterly dividends amply secure.
Walgreen	3.20 h	3.03	1.85	1.85	5.8	9.8	31½	32 -25¾	B2	Efficiently managed operations tending to moderately improve earnings on large and rapid turnover. A year-end extra may again supplement quarterly dividends.
Wrigley W	6.30	5.82	5.00	4.00	5.9	13.4	84½	84½-66	A2	Aggressive promotional activities and established brand popularity should hold earnings at fairly high level. 1950 dividends should equal 1949.

‡—Based on 1949 actual or estimated earnings.
†—Based on 1949 dividends.
(a)—Paid 5% in stock.
(b)—Plus stock.
(c)—Year ended June 30, 1949.
(d)—Deficit.
(E)—Estimated.
(f)—Year ended July 31, 1949.
(g)—Year ended October 31, 1949.
(h)—Year ended September 30, 1949.

FOR PROFIT AND INCOME



Fickle

April in the past has been a fickle month for the stock market, without any semblance of seasonal bias. Checking the chart back to 1920, or for 30 years, we find sizable net advances for this month in 10 instances, sizable declines in 10, insignificant net changes in 10. You get a similar if less closely balanced mixture by extending the record to 50 years. April has often produced interesting, and at times violent, market history. April was the bottom month of the great 1939-1942 bear market. April brought the only considerable reaction (in 1936) in the two-year upward grind which topped off the 1932-1937 bull cycle. That was the bull market which "settled down to business" early in 1935 after a number of violent and erratic swings in late 1932 and through 1933-1934. In the same period, April, 1933, brought the sharpest net rise for any single month in all history, amounting to about 40% for the Dow industrial average. April, 1932, brought one of the sharpest net declines, about 23%, ever seen in one month. April, 1931, was also a very bad month for the market. In the present instance, April should be regarded with some distrust. This is not because of the record, but because a sizable reaction is overdue.

Richfield

Very few oil companies, none of major importance, earned more last year than in 1948. Probably the outstanding showing was that of Richfield Oil, whose profit rose to \$5.11 a share from 1948's \$4.19. The chief reason was the discovery and development of unusually profitable fields of high-grade crude in the Russell Ranch Field in 1948 and the South Cuyama Field in 1949. Both are in California, where the company exclusively operates. In 1948 Richfield's crude output equalled only a little over a third of refinery runs; but it had, and still has, an advantageous long-term contract under which it obtains crude oil from the Union Pacific Railroad in exchange for fuel oil. The crude discoveries of 1948-1949 may be of major long-term importance. Majority control of this company is held by Sinclair Oil and Cities Service. Prior to reorganization and merger in the 1930's, the operating record was poor. The stock's 1949-1950 range has been $42\frac{3}{8}$ - $24\frac{3}{4}$, and it stands now at $38\frac{3}{4}$. This makes it one of the "best-acting" oils. However, it remains a speculation. From a basic, long-term view, it is not remotely in the class of premier oils like Standard of California, Standard of New Jersey, Gulf Oil, Texas Company and a number of others.

So What?

Some observers with short memories wax enthusiastic over the major economies which most railroads are obtaining through their progressive switch to Diesel locomotives, both for line and yard haulage. The realistic view is (1) operating results would be poor, indeed, without this saving; and (2) the benefit can hardly be permanent. In short, this column figures that if and when the railroads gain something, the

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Standard Brands	Year Dec. 31	\$2.34	\$2.05
Coca-Cola	Dec. 31 Quarter	1.49	1.36
Briggs Mfg. Co.	Year Dec. 31	6.88	5.40
First National Stores	Dec. 31 Quarter	2.07	1.89
Allied Chemical & Dye	Year Dec. 31	16.78	14.35
National Pressure Cooker	Dec. 31 Quarter	.67	.57
Chrysler Corp.	Year Dec. 31	15.19	10.25
Reynolds Spring	Dec. 31 Quarter	.24	.12
Safeway Stores	52 Weeks Dec. 31	5.22	3.50
Pacific Tin Consolidated	Dec. 31 Quarter	.19	.10

benefit almost surely will in due time be taken by the unionized employees. Very little, if any, will be reflected in dividends. There is a limit to operating economies subject to managerial control. There is apparently no limit to wage demands and feather-bedding innovations. Demands now pending are estimated to involve a cost of around $400 million a year, or more than the industry's total net income for 1949. Income on that order could also be transformed to loss by even a relatively mild business depression.

Hedges

Remember the "inflation talk" of 1948, when commodity prices were soaring and any broker could give you a list of inflation-hedge stocks? Non-ferrous metals stocks figured prominently in most such lists. You would have fared fairly well in these stocks —not as well as in many without inflation-hedge characteristics—if you had been wise enough or lucky enough to buy them low and sell them high. As long-term inflation hedges they have not worked out well. It might or might not be different 10 or 20 years hence. Right now, lead producers in particular are worried about deflation. This metal is in world oversupply. The domestic price has fallen from a 1948-1949 high of 21.5 cents a pound to 11 cents. The 1939 average was slightly over 5 cents. However, at present mining costs in this country, the price becomes highly unprofitable long before the prewar level is reached.

Last Try?

There has been some recent speculative activity in Continental Motors, now around 6⅞. Probably it stemmed from the renewal of auto production by Kaiser-Frazer, after a hiatus in which new models were designed and working funds obtained from the RFC. Kaiser-Frazer has been a major buyer of engines from Continental. K-F stock has also had a spurt, rising this year from low of 4⅜ to high of 7½, and standing now at 6. If the new models do not make a big hit, it would take a supreme optimist to see any kind of future for Kaiser-Frazer.

Textiles

Textile stocks have been among the poorest market performers in recent weeks. The outlook for the woolen branch, as noted here before, is most uninspiring. Raw wool is too high in price. On the other hand, rayon and other synthetics are an increasing competitive threat to woolens in the garment trade. This foots up to a profit squeeze. The stock market appears to be saying that recent active output of cotton goods and rayon will soon become less so. Whether this implies overproduction or little more than purely seasonal slackening, time alone will tell. The rayon companies have the best basic outlook, of course, because of superior growth of demand and better control over costs. However, newer synthetics might ultimately encroach on rayon or force some adjustments. That might be years away, though.

Labor Costs

Organized labor remains on the march and militant. One might as well stop talking about fourth-round or fifth-round demands. As long as the economy is not in a real tailspin, there will be annual demands without end. Many investors have begun to figure on relative labor costs as a key factor in stock selection. That is sensible, but has serious limitations. Were other things equal, preference would naturally be given to stocks in industries with a low, or at least below average, "labor factor." But in investment selections, other things are never equal. The rule remains that in the stock market you come at least fairly close to getting what you pay for. Among stocks suited mainly to income investment, labor costs are low for cigarette and snuff makers; and much below average for electric utilities. The natural gas industry has a low labor factor and long-term growth promise, but is not without some political uncertainties. Federal bureaucrats, now controlling interstate gas pipe lines, would like also to regulate the price of natural gas at the point of origination. Maybe they will get that power in time; maybe not. It could make a big difference to gas producers.

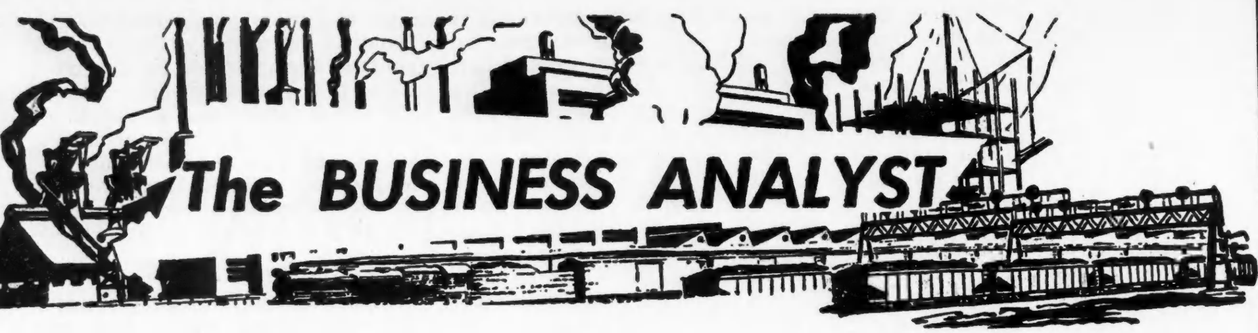
Food Store Stocks

Stocks of chain-grocery retailers, considering their normally quiet market behavior, have been somewhat on the sensational side recently. As a group, they have risen above their 1948 recovery high by a margin several times wider than that shown by the Dow industrial average; and their recent best level was only moderately under the group's 1946 bull-market high. For the postwar period as a whole, these stocks have gained importantly in relative position, compared, for example, with variety store or the best drug-chain stocks. These are the only three retailing lines qualifying for investment status on the basis of stability of earnings and dividends. It is not generally recognized that the most significant change in retailing technique since prewar has been development of the super-market, self-service type of food distribution. The benefit to profits of chain stores has been large, and should endure for at least some years. This is what is behind the superior performance of the stocks. The physical transformation of food store chains still has some distance to go, requiring at least several more years . . . In contrast to other branches of retailing, earnings are around all-time peak levels, with little or no fortuitous abnormality involved. They may be still better in some individual situations in the future.

(*Please turn to page* 703)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

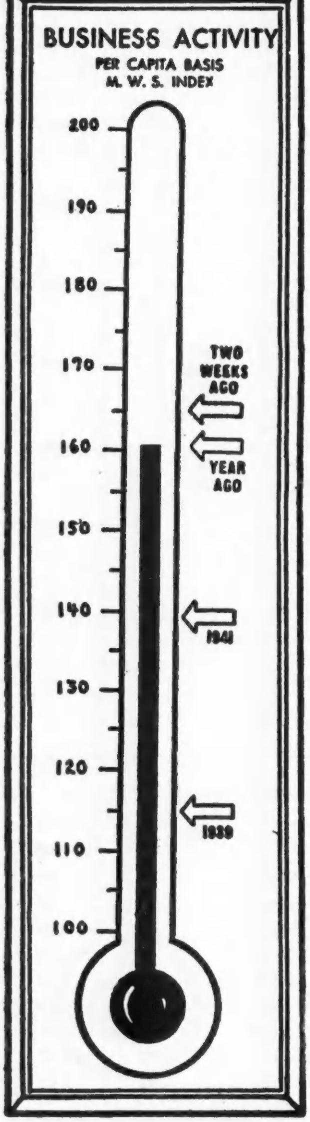
		1949	1948
Holland Furnace Co.	Dec. 31 Quarter	$1.52	$1.90
National Container Corp.	Dec. 31 Quarter	.30	.39
Parker Rust Proof Co.	Dec. 31 Quarter	.77	.94
U. S. Freight Co.	Dec. 31 Quarter	.55	1.91
Starrett, L. S. Co.	6 mos. Dec. 31	.70	2.99
Champion Paper & Fibre	Dec. 31 Quarter	1.95	2.28
Yale & Towne Mfg. Co.	Year Dec. 31	2.49	4.17
American Chicle Co.	Dec. 31 Quarter	.80	.84
American Smelting & Refining	Year Dec. 31	8.22	13.47
National Cash Register	Year Dec. 31	5.92	7.82



What's Ahead for Business?

By E. K. A.

While industry is rapidly recovering from the effects of the coal strike, the resultant activity is hardly finding an echo on the price front. Generally, commodity markets continue in an atmosphere of caution and reserve that has characterized them even before the turn of the year. Not even a minor buying wave has been touched off. Such conservatism can largely be ascribed to the belief that the longer term price trend remains downward, with natural reluctance to do anything that might lead to overextension. Foreseeing ample supplies, purchasing agents see no reason to extend commitments beyond reasonable needs.



However, what happened to the lead price recently can hardly be called typical. Selling at twelve cents since last November, way down from its all-time high of 21½ cents prevailing a year ago, the price was pared to 10½ cents a pound, reflecting a growing surplus of supplies plus sharply reduced demand. Oversupply was importantly due to heavy imports, spotlighting the changed economic conditions in countries which were formerly large importers of the metal. In the face of recovery of production abroad there was however no commensurate rise in lead use. Thus the excess was diverted to this country, a move accelerated by foreign currency devaluation and the need to earn dollars. Consumption of most metals abroad is running considerably below prewar.

It would be premature to deduce from this experience the possibility of declines in other non-ferrous metals, notably copper which at this stage appears fairly well stabilized, though it could easily influence buying psychology in metal markets generally. The price of zinc actually has firmed a few days ago, following resumption of high level steel output. But the drive for higher import duties on lead and reimposition of the 2¢ copper duty is apt to stiffen, in the latter instance in spite of the fact that we have been using a good deal more copper than we have been producing. It is realized that any industrial slow-down could markedly alter the demand-supply situation.

Speaking of prices generally, most observers look for a further mild downtrend despite the relatively high degree of stability which has prevailed so far this year.

Business inventories in January, according to the Commerce Department, rose about $150 million, reaching a total of $53.5 billion at the end of that month. An increase of almost $100 million in manufacturers' stocks, the first monthly increase in over a year, was offset by a similar decline at the wholesale level, and was largely caused by apprehension over the coal crisis. Thus it hardly represents a new upward trend. As it is, forward buying and pressure for quick deliveries which accompanied the January rise, is once more subsiding, not only because the coal tie-up and its attendant fears are passed but also because of price easiness in some industrial commodities.

Retail Trends

Undoubtedly industry will experience an extra push because manufacturers will try to catch up with strike-deferred orders. Retailers, however, are somewhat less optimistic about the immediate outlook. Their buying for the Spring season is reported lagging some 10% below last year's level with only a scant pick-up reported since the termination of the coal strike. Apparel lines are hardest hit. Home furnishing lines, spurred by good television sales, are showing considerable improvement over a year ago.

The approach of Easter should develop some pick-up in retail sales, as is always the case, but some spottiness may remain, particularly if the weather doesn't cooperate. Retail sales comparisons with a year ago have been shifting back and forth but last year's March figure should not be hard to beat, down as it was from the 1948 peak, provided that pre-Easter buying is not further delayed.

Department store sales in recent weeks have been running even with a year ago in dollar terms, which is a good showing considering that prices average lower. Retail sales of automobiles also show that demand and buying power are running large, for increases over last year, when cars were in shorter supply, are substantial.

Consumer spending, in other words, remains at a high level but the way the consumer dollar is spent is making for considerable cross-currents.

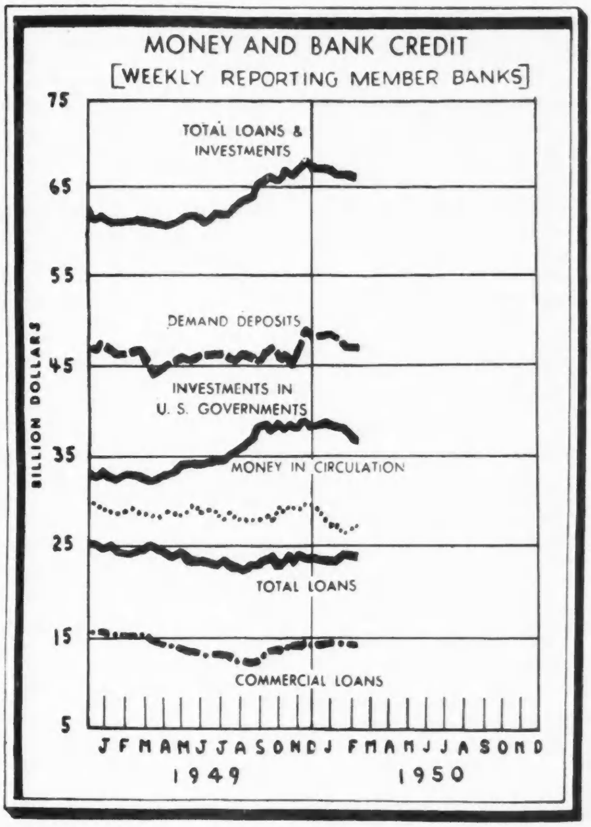
The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—This publication's index of 325 active common stocks, along with the index of 100 high priced stocks, inched forward during the week ended March 4 to new highs since 1948; but failure of the 100 low priced stocks to confirm the new high made by the high priced stocks pointed to an early reaction which took place during the following week, carrying all three of our major indexes down to the lowest level in 4 weeks. During the first week of the fortnight under review, 14 of the 46 group indexes reached new highs for various periods, as tabulated on the second page following, and 4 more groups made new highs even during the ensuing reactionary week. New York bank stocks and the better grade preferred stocks closed fractionally higher on the fortnight, as did the unrestricted Victory 2½s. On the other hand, foreign government dollar bonds sagged to a new average low in 5 weeks, high grade rail bonds slipped to a new low since December 17, while the restricted Victory 2½s eased off fractionally to the lowest price since July 2. The Treasury's cash balance fell $967 million during the fortnight ended March 8, after paying off $600 million of the Federal debt; but the balance is still $862 million above what is considered a comfortable minimum of $3.5 billion. Thus far, thanks largely to heavy first quarter income tax collections, Federal financial transactions have been more deflationary than otherwise. Since the first of the year, the Federal gross debt has been reduced $1 billion, demand deposits of weekly reporting member banks are down $1,327 million, commercial loans are $61 million smaller, total loans and investments are down $590 million, the monetary gold stock has declined $82 million and bank reserves are off $32 million. The only increases have been $71 million in real estate loans and $52 million in loans on non-Government securities. Bankers are much concerned over the fast growing encroachment by the Government upon the field of private credit. Direct loans, loan guarantees and credit commitments of more than 20 Government lending agencies now exceed $26 billion — more than 60% of all the outstanding loans by the nations' 14,000 commercial banks. U. S. firms doing business abroad have been authorized by the Bureau of Internal Revenue to defer payment of Federal income taxes on earnings they can't convert into dollars, and the ruling has been made retroactive. Russia revalued the ruble in terms of gold and reduced some domestic prices. Most observers believe this was merely for propaganda purposes; but there are some grounds for suspecting that she may be finding it necessary to establish more realistic ties with prices beyond the iron curtain.

TRADE—Department store sales in the fortnight ended March 4 were only 2½% below last year, against a 4% decline for the year to date. January wholesale trade was off 3% from a year earlier. Our excess of exports over imports fell in January to $121 million, compared with $518 million for January of last year.

INDUSTRY—Business activity during the first week of March was only 1.5% ahead of the corresponding period last year, compared with an increase of 2.1% for the month of February. While unemployment increased 1,463,000 in February, employment in non-farm pursuits rose 556,000. February construction was the greatest for any February in history. Freight car orders continued to pick up in February. Furniture makers'



new orders booked in the first month of the current year topped any previous January on record. Corporate profits after taxes last year averaged 9% smaller than for 1948. Corporate cash dividends disbursed in January were a trifle lower than last year. For three months ended January, they were up 8%.

COMMODITIES—Spot and futures indexes followed the general course of the stock market during the fortnight ended March 11—up on week and down the next. Cotton was off during the fortnight in both markets. For hides, spot prices were up, and futures down a little. Lead was reduced a cent a pound, and then another half cent—first declines since last November 21. Wheat in particular was strengthened by failure of expected rains to materialize in the West and Southwest.

The coal strike was mainly responsible for a further decline of nearly 2% in the nation's physical volume of **Business Activity** during the fortnight ended March 4, thereby narrowing to 1.5% the margin of increase over a year ago. Starting with the second week in March, however, a sharp recovery set in with the return to a five-day week for both anthracite and bituminous coal mining.

* * *

The chief beneficiaries of the return to full production of coal will be the coal mining, railroad and steel industries, in the

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Feb.	1.04	1.14	1.16	1.55
Cumulative from mid-1940	Feb.	393.0	392.0	378.3	13.8
FEDERAL GROSS DEBT—$b	Mar. 8	255.9	256.2	252.0	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Mar. 1	46.9	46.8	46.1	26.1
Currency in Circulation	Mar. 8	27.1	27.1	27.6	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Mar. 1	9.22	9.05	9.00	4.26
93 Other Centers—$b	Mar. 1	12.90	12.68	12.93	7.60
PERSONAL INCOMES—$b (cd2)	Dec.	213.7	211.6	219.3	102
Salaries and Wages	Dec.	138.5	136.9	141.4	66
Proprietors' Incomes	Dec.	43.4	44.9	50.3	23
Interest and Dividends	Dec.	19.1	17.4	16.9	10
Transfer Payments	Dec.	12.7	12.4	10.7	3
(INCOME FROM AGRICULTURE)	Dec.	20.1	20.3	25.2	10
POPULATION—m (e) (cb)	Feb.	150.8	150.6	148.1	133.8
Non-Institutional, Age 14 & Over	Feb.	110.3	110.2	109.2	101.8
Labor Force	Feb.	63.0	62.8	61.9	57.5
Military	Feb.	1.37	1.41	1.51	1.89
Civilian	Feb.	61.6	61.4	60.4	55.6
Unemployed	Feb.	4.7	4.5	3.2	3.8
Employed	Feb.	57.0	56.9	57.2	51.8
In Agriculture	Feb.	6.3	6.2	7.0	8.0
Non-Farm	Feb.	50.7	50.7	50.2	43.8
At Work	Feb.	48.8	49.1	48.4	43.2
Weekly Hours	Feb.	41.1	40.9	41.5	42.0
Man-Hours Weekly—b	Feb.	2.01	2.01	2.01	1.82
EMPLOYEES, Non-Farm—m (lb)	Jan.	42.2	43.7	43.4	37.8
Government	Jan.	5.8	6.1	5.8	4.8
Factory	Jan.	11.5	11.5	12.2	11.7
Weekly Hours	Jan.	39.8	40.0	39.5	40.4
Hourly Wage (cents)	Jan.	141.8	141.0	140.5	77.3
Weekly Wage ($)	Jan.	56.44	56.40	55.50	31.23
PRICES—Wholesale (lb2)	Mar. 7	152.0	152.6	159.0	92.5
Retail (cdlb)	Jan.	183.8	184.4	191.5	116.2
COST OF LIVING (lb3)	Jan.	166.9	167.5	170.9	100.2
Food	Jan.	196.0	197.3	204.8	113.1
Clothing	Jan.	185.0	185.8	196.5	113.8
Rent	Jan.	122.6	122.2	119.7	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Jan.	9.52	12.85	9.35	4.72
Durable Goods	Jan.	3.06	3.38	2.56	1.07
Non-Durable Goods	Jan.	6.46	9.47	6.79	3.65
Dep't Store Sales (mrb)	Jan.	0.59	1.37	0.64	0.42
Retail Sales Credit, End Mo. (rb2)	Jan.	9.67	10.15	7.83	5.46
MANUFACTURERS'					
New Orders—$b (cd) Total	Dec.	16.3	18.1	18.0	14.6
Durable Goods	Dec.	6.4	7.4	7.6	7.1
Non-Durable Goods	Dec.	9.8	10.7	10.4	7.5
Shipments—$b (cd)—Total	Dec.	17.0	17.6	19.5	8.3
Durable Goods	Dec.	6.9	7.0	8.6	4.1
Non-Durable Goods	Dec.	10.1	10.6	10.9	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Jan.	33.9	37.7	34.4	28.6
Manufacturers'	Jan.	17.3	17.2	17.6	16.4
Wholesalers'	Jan.	7.1	7.7	7.5	4.1
Retailers'	Jan.	9.5	12.8	9.3	8.1
Dept. Store Stocks (mrb)	Dec.	1.9	2.4	2.0	1.4
BUSINESS ACTIVITY—1—pc	Mar. 4	161.2	162.5	161.6	141.8
(M. W. S.)—1—np	Mar. 4	187.7	189.1	184.9	146.5

PRESENT POSITION AND OUTLOOK

order mentioned, whose **Earnings** for the first quarter have been more or less impaired by abnormally low coal production. On the other hand, terms of settlement with John L. Lewis have upped the cost of producing coal by around 35 cents a ton; so that prices for high volatile steam coal used principally by electric utilities, manufacturing industries and the railroads, have had to be boosted an additional 25 cents a ton. This means higher costs for users.

* * *

Return to a five-day week offers no permanent solution to the coal industry's woes. Terms of the new contract apparently calls for full production up to the end of March, 1951, thereby removing the incentive to build up stock piles this year. Long before the 12-month respite from shortages has elapsed, coal will be running out of everybody's ears, prices will crumble and high-cost mines will be forced to close down or cut wages.

* * *

For the month of February, this publication's index of **Business Activity** was depressed by the coal strike to 192.6% of the 1935-9 average—1.6 point below January; but 2.1% above February of last year. On a per capita basis, the index for February was 164.0% of the 1935-9 average, compared with 165.7 in January, and 163.4 for February, 1949.

* * *

Altogether too much fuss is being made over the rise in **Unemployment,** which expanded another 204,000 in February, to a level 1,463,000 above a year ago. On the other hand, 556,000 more were employed in no-farm pursuits during February than a year earlier. The explanation lies not in the failure of business expansion to keep pace with the growth in population, but in the fact that an abnormally large number, mostly women, of working age are out looking for jobs to supplement the family income in these days of high living costs. During the past year, our population of working age has grown a little less than 1.05% (a somewhat smaller rate than the rise in business activity). At the same rate of expansion, there would have been an increase of only 651,000 in the labor force, compared with an actual rise of 1,107,000.

* * *

Meanwhile all but 95,000 of the normal growth of 651,000 in the labor force have ben absorbed by the rise in non-farm employment. Adding this 95,000 to the abnormal incease of 456,000 in the labor force,

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Jan.	183	180	191	174
Mining	Jan.	131	132	149	133
Durable Goods Mfr.	Jan.	210	204	227	220
Non-Durable Goods Mfr.	Jan.	179	175	175	151
CARLOADINGS—t—Total	Mar. 4	574	547	706	833
Manufactures & Miscellaneous	Mar. 4	329	320	349	379
Mdse. L. C. L.	Mar. 4	83	73	96	156
Grain	Mar. 4	42	39	47	43
ELEC. POWER Output (Kw.H.)m	Mar. 4	5,879	5,854	5,552	3,267
SOFT COAL, Prod. (st) m	Mar. 4	3.1	2.6	10.6	10.8
Cumulative from Jan. 1	Mar. 4	45.1	42.0	104	446
Stocks, End Mo.	Jan.	37.0	45.1	67.8	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Mar. 4	4.9	5.0	5.2	4.1
Gasoline Stocks	Mar. 4	134	134	126	86
Fuel Oil Stocks	Mar. 4	46	49	59	94
Heating Oil Stocks	Mar. 4	52	56	52	55
LUMBER, Prod. (bd. ft.) m	Mar. 4	729	664	589	632
Stocks, End Mo. (bd. ft.) b	Dec.	7.3	7.3	7.4	12.6
STEEL INGOT PROD. (st.) m	Feb.	6.78	7.93	7.48	6.96
Cumulative from Jan. 1	Feb.	14.7	7.93	15.7	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Mar. 9	211	133	185	94
Cumulative from Jan. 1	Mar. 9	1,946	1,735	1,431	5,692
MISCELLANEOUS					
Paperboard, New Orders (st) t	Mar. 4	250	173	179	165
Hosiery Production (pairs) m	Dec.	152	167	135	150
Footwear Production (pairs) m	Dec.	34	33	35	35
Motor Vehicles, Factory Sales—t	Jan.	582	358	431	352
Whiskey, Dom. Sales (tax gals.) m	Jan.	4.7	5.2	4.0	8.1
Cigarettes, Domestic Sales—b	Dec.	29	25	28	17

PRESENT POSITION AND OUTLOOK

we account for 551,000 of the net rise of 1,463,000 in unemployment. The remaining 912,000 are accounted for by a reduction of 142,000 in our armed forces, plus a drop of 770,000 in agricultural employment. The latter is due in some part to unfavorable weather, but has been caused mainly by great strides in farm efficiency. As women account for all of the abnormal growht in the labor force, it develops that ambitious women and efficient farmers, not non-farm business managers, are almost wholly to blame for the rise in unemployment!

* * *

In February, at least five automobile companies enjoyed record sales while expenditures on new CONSTRUCTION rose to a new all-time high for that month—21% larger than a year ago.

* * *

The National City Bank finds that net PROFITS after taxes reported by 2,127 leading corporations for last year were 9% smaller than in 1948. Twenty among 54 industries, however, showed gains. The largest increase, 65%, was enjoyed by fire and casualty insurance companies. The largest drop in earnings, 60%, was suffered, as might have been expected, by cotton goods concerns.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-39—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np.—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands. *—1941; November, or Week ended December 6.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

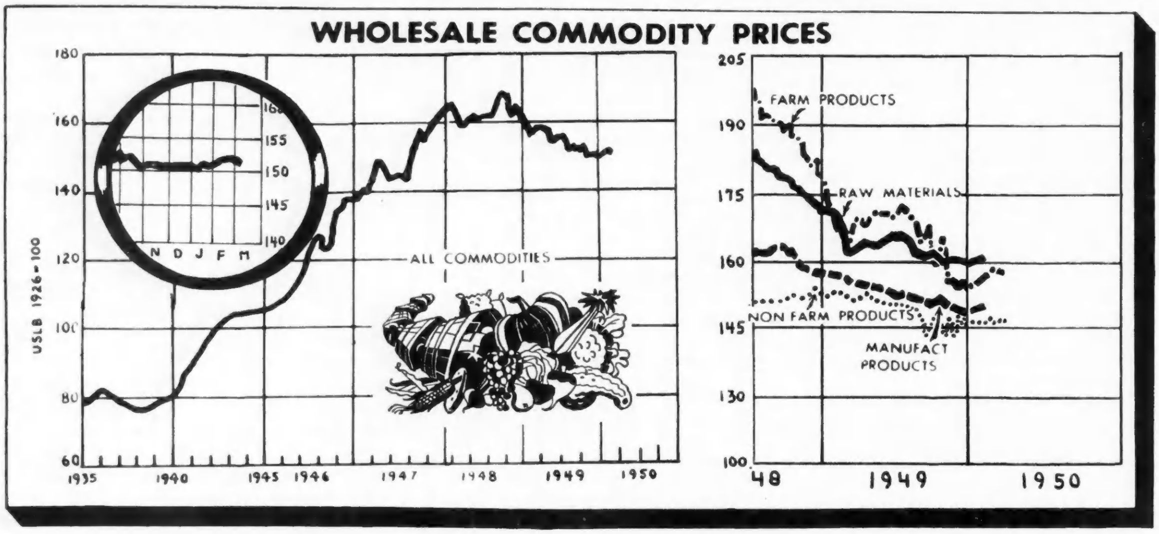
No. of Issues (1925 Close—100)	1949-50 Indexes High	Low	Mar. 4	Mar. 11
325 COMBINED AVERAGE	143.3	108.0	143.3A	140.7
4 Agricultural Implements	207.5	162.1	194.8	194.3
10 Aircraft (1927 Cl.—100)	199.5	138.2	199.5C	190.8
6 Air Lines (1934 Cl.—100)	517.1	366.1	508.2	486.4
7 Amusement	104.4	75.7	94.5	96.4
10 Automobile Accessories	210.9	145.2	210.9B	205.6
12 Automobiles	31.5	21.3	31.1	29.6
3 Baking (1926 Cl.—100)	23.3	18.1	23.1	22.6
3 Business Machines	269.9	209.0	269.1	269.9A
2 Bus Lines (1926 Cl.—100)	176.4	118.3	173.8	176.4C
5 Chemicals	273.7	212.7	261.3	256.4
3 Coal Mining	19.2	11.2	14.0	13.4
4 Communication	48.4	31.8	46.1	45.1
9 Construction	63.6	47.4	63.4	61.3
7 Containers	326.3	240.7	321.1	317.0
9 Copper & Brass	95.8	67.4	85.0	82.3
2 Dairy Products	75.1	53.3	74.9	75.1C
5 Department Stores	61.2	49.2	59.6	58.2
6 Drugs & Toilet Articles	202.8	141.6	200.6	198.2
2 Finance Companies	352.1	246.1	352.1N	345.4
7 Food Brands	180.9	146.0	177.5	176.4
2 Food Stores	108.0	58.5	108.0R	105.2
3 Furnishings	78.8	54.7	76.2	73.3
4 Gold Mining	795.1	566.3	707.3	711.6

(Nov. 14, 1936 Cl.—100)	High	Low	Mar. 4	Mar. 11
100 HIGH PRICED STOCKS	89.27	70.88	89.27A	88.24
100 LOW PRICED STOCKS	170.03	119.71	169.65	165.25
5 Investment Trusts	75.1	53.9	74.3	72.6
3 Liquor (1927 Cl.—100)	841.8	602.9	803.0	814.3
11 Machinery	155.1	115.9	155.1A	151.1
3 Mail Order	112.5	87.1	108.1	106.7
3 Meat Packing	92.9	63.3	92.0	90.0
12 Metals, Miscellaneous	158.1	122.0	143.6	141.9
4 Paper	41.1	27.9	41.1	39.9
30 Petroleum	255.8	207.1	245.0	246.9
27 Public Utilities	150.2	102.4	149.7	150.2C
5 Radio (1927 Cl.—100)	26.9	13.6	25.2	24.9
9 Railroad Equipment	50.7	36.5	48.3	46.2
24 Railroads	24.6	17.5	24.6A	24.0
3 Realty	33.2	21.4	33.2C	31.9
3 Shipbuilding	152.7	120.0	151.3	148.5
3 Soft Drinks	391.6	298.2	391.6A	365.2
15 Steel & Iron	106.5	77.0	106.5A	102.7
3 Sugar	53.6	39.8	52.1	51.9
2 Sulphur	342.5	233.8	340.5	338.1
5 Textiles	139.9	100.9	128.9	126.9
3 Tires & Rubber	36.8	26.6	36.8B	35.7
6 Tobacco	87.3	67.1	86.5	86.4
2 Variety Stores	351.6	308.3	351.6C	343.0
19 Unclassified (1948 Cl.—100)	123.0	93.2	122.9	119.6

New HIGH since: A—1948; B—1947; C—1946; N—1937; R—1930.

Trend of Commodities

While our index of raw material spot prices closed the week ended March 11 at the same level as two weeks earlier, the Dow-Jones commodity futures index registered a small decline. Lack of moisture in the wheat belt strengthened the price, despite estimates that our exports of the grain will drop sharply next year. Record insect damage to crops this summer is predicted by the Agriculture Department in consequence of an unusually mild winter which failed to destroy billions of the pests. Last year the Government spent $3 billion on extermination; this year it may reach $4 billion. Many farmers plan to disregard the Government's request to cut 1950 corn plantings 20%. One influential corn country counsellor advises: "If you feed all your corn to animals on your farm, forget the acreage allotments. If you raise it for sale, stay within your allotment—and pile on the fertilizer." If a farmer raises corn for feed, he can dispose of his hogs, butter and eggs in a Government supported market. Farmers' cash receipts from marketing last month were 9% below February of last year. Solution of the potato muddle hinges upon finding an answer to the riddle: "How can we bureaucrats keep science-on-the-farm from upsetting our plans?" In 1939, only 363 million bushels were harvested from 3 million acres. Last year, 1.9 million acres yielded 402 million bushels. Meeting resistance to exporting surplus crops below cost, the planners are mulling over the idea of reviving the once-tried scheme of giving food stamp bonuses to the needy. But the experiment didn't pan out any too well. However, the R.F.C. has at last ceased setting the price for tin.

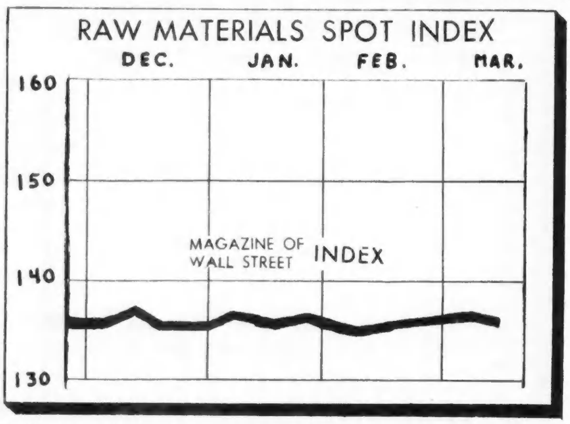


U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

	Date Mar. 13	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	246.3	247.9	247.8	247.8	252.1	265.6	156.9
11 Imported Commodities	248.6	250.5	252.1	258.7	250.5	252.9	157.3
17 Domestic Commodities	244.9	246.3	244.5	241.0	253.2	274.4	156.6

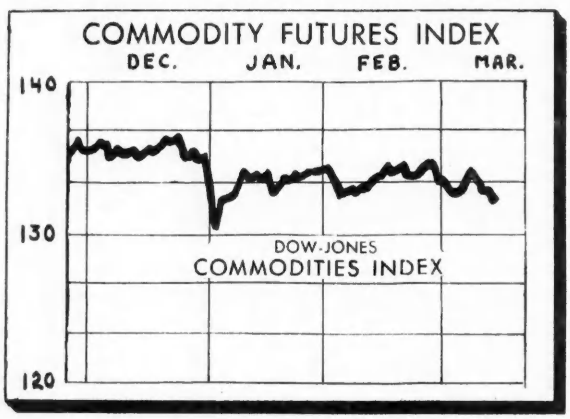
	Date Mar. 13	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	305.6	304.6	305.3	297.2	305.9	294.0	163.9
12 Foodstuffs	307.7	307.1	309.0	300.0	301.6	289.5	169.2
16 Raw Industrials	218.7	220.9	221.0	226.1	229.9	260.5	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	136.7	161.5	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	135.15	139.28	175.65	106.41	84.60	64.67	54.95	82.44
Low	131.21	122.45	117.14	93.90	55.45	46.59	45.03	52.03

Keeping Abreast of Industrial and Company News

The **British Industries Fair** to run in both London and Birmingham for eleven days from May 8 to 19 will be the biggest display of its kind ever organized anywhere in the world. An army of American buying personnel can be counted on to invade the premises, with a keen eye on price tags attuned to the devaluated pound.

1949 volume and net income of **P. Lorillard Company** continued their firmly established uptrend, somewhat aided by a price lift in the previous year, plus intensified promotional activities. **Herbert A. Kent,** president, told stockholders that "Old Gold" cigarettes made exceptionally fine progress last year. In reflection of the steady improvement, the quarterly dividend rate was increased to 30 cents a share in February, with indicated intentions to raise it further in due course.

Many managements are pointing out to their shareholders some of the advantages at last accruing from large sums spent for plant improvements in postwar. William P. Snyder, chairman of **Crucible Steel Company,** for example, reported that due to economies effected, the company demonstrated that good earnings were possible at one period last year when net sales were 70% of the wartime average of 1942-44.

Charles E. Hires Company has a new president. **Edward W. David,** vice president, becomes the new chief officer, succeeding **Charles E. Hires, Jr.,** who was named to the new post of board chairman. Among several other promotions was the elevation of **John R. Spingler,** treasurer, to the office of executive vice-president.

As we go to press, the wraps will be taken off a brand new Army vehicle at the Aberdeen, Md. Proving Grounds. The newcomer is the first of 5,000 being built by **Reo Motors, Inc.** on a $31 million contract awarded last June. Called the "Beaver," this truck can take a 10,000-lb. load up a 65% grade, travel at 60 miles an hour on a highway, operate under temperatures ranging from 125 degrees above to 65 degrees below zero. Almost unbelievably, the vehicle operates perfectly under water as long as the driver is able to keep his head above the surface. Other marvels the "Beaver" can perform will be revealed to newspapermen when the new model is unveiled.

At least one major railroad has decided to carry its terminology and mathematics, pay and rate problems, and interesting travel data right to the school level where rail transport in general stimulates juvenile fascination. The **Baltimore & Ohio Railroad Company** is supplying school classes with cleverly written "Railroad 'Rithmetic" books, where everything from elementary numbers to percentage is taught by problems based on the railroad business. The management of the road believes this program will not only facilitate teaching but broaden public knowledge of rail transport as well.

As a result of prolonged research, the **United States Rubber Company** is in production of some new safety drapes for places of public assembly, such as theaters, hotels, night clubs, ships and school auditoriums. These fabrics are woven of asbestos-glass yarns to offer fire resistance of utmost character. The company is offering them to converters as grey goods for dyeing as may be desired, but the natural color assumes violet, crimson and other shades when exposed to flood- or foot-lights. The material has high strength and low stretch, it is claimed.

Before April 1, **Oliver Mining Company, a U. S. Steel subsidiary,** will start construction of a pilot plant at Virginia, Minnesota, that should signal the birth of a new industry, the production of commercial taconite. The move is a step in a program likely to involve from $17 million to $20 million. Taconite is an agglomeration or cementing together of powder-fine minerals, a very exacting process. The new plant will be the first of its kind on the Mesabi Range, and is designed for an annual production of one million tons.

Backlog orders of **Douglas Aircraft Company, Inc.** have accumulated at a rate that assures high level operations well into 1951, while prospects are bright that new orders may extend the period of activity even into 1952. As matters now look, the company can reasonably count on a volume of about $120 million in the current year, but uncertainties over earnings potentials persist because they will be subject to renegotiation by the Government.

A senate sub-committee recently investigating coffee prices was surprised to learn on what narrow margins the **Great Atlantic and Pacific Tea Company** operates and how little they are influenced by fluctuations in the price. Francis M. Kurtz, head of A. & P.'s coffee division, informed the committee that in the two year period ended February 25, the food store chain had an identical pretax profit in each year of 1.05 cents per pound. Furthermore, this very modest margin represents the total profit A. & P. receives for procuring and processing the green coffee, importing, roasting, packing, transporting, grinding and retailing it to the public. It seems that when coffee prices began to soar, the company advanced its prices only to a level well be-

low replacement values, and is holding them there until any abnormal inventory profits are entirely handed back to the consumer.

Banks, railroads and Government Departments are being offered a new and very efficient Sunstrand Adding Tabulator, the product of **Underwood Corporation** and its engineering experts. The machine operates on entirely new principles that permit automatic or manual operation in either vertical or horizontal sequences. A listing capacity of ten columns and a totaling capacity of eleven columns are among other important features.

Prolonged acoustical research by the engineers of **Radio Corporation of America** has resulted in development of a super-heterodyne radio receiver of pocket size, yet equipped with a loud speaker. The set is one-third the size and half the weight of larger portable radios now available, and yet superior performance is claimed because of increased loudspeaker efficiency that compensates for reduced power output. The ingenious element in this midget radio is a movable lid that serves as a tapered horn to increase sound four-fold over existing models. If this new device lives up to its claims, it should compete very successfully with the innumerable portables of much larger dimensions offered on every hand, and market potentials are broadened because the small radio can be readily carried in a hand bag or coat pocket.

Another producer of radios, **Motorola, Inc.,** reports that sales of home sets are substantially better than a year ago, and the firm's car radio sales are up 50%. The company is out with a complete new line of portables in the form of four improved models utilizing miniature tubes for the sake of compactness. In line with many other manufacturers in this highly competitive year, Motorola is embarking upon an intensive promotional campaign, far greater than in any other year of its history.

K. S. Adams, president of **Phillips Petroleum Company,** has agreed with the Venezuelan Government to construct and operate a modern refinery and wax plant in that highly prosperous country, but actual construction is not expected to begin in the current year. The venture will benefit not only the company but the Venezuelan economy as well, because currently all wax now consumed there has to be imported. Fitting nicely into the picture is the fact that much of Phillip's large output of crude oil down there has quite a heavy content of high grade wax.

Utilization of waste products on a commercial scale has long been a fundamental aim of **E. I. du Pont de Nemours,** and with highly significant results. For some time past the company has been producing adiponitril, a chemical intermediate of nylon, from furfural which is made from corncobs and oat hulls. Upon completion of a new plant at Niagara Falls, designed to double the present capacity at that location, about 400 million pounds of commonly considered useless farm waste will be used annually in a very constructive manner.

How the streamline train has increased the earning power of the **Railroad Industry** in competition with other carriers has been set forth in a comprehensive study by Coverdale and Colpitts, New York consulting engineers. The authors use statistics on 58 streamliners operated by 20 railroads. The reports bring out that these highly modernibed trains have netted a return of 49.7% of gross revenue, despite their initial relatively high cost. Although the streamliners cover only 6.1% of all passenger train miles, they account for 9.9% of all passenger revenues except commutation. Railway officials aver that as each new train was put into operation, traffic was diverted from other lines, new traffic was built up from the highways, and in some cases entirely new traffic was created.

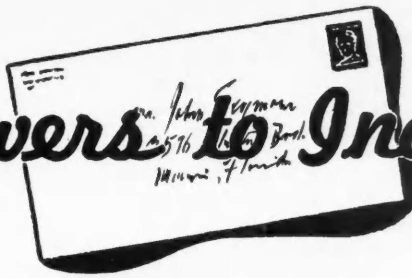
The oil boom in Western Canada is encouraging construction of new refineries on an increasing scale. **M. W. Kellog Company,** the international engineering subsidiary of **Pullman, Inc.,** has recently received through Canadian Kellog Company, Ltd., a contract from **British American Oil Company, Ltd.** to equip a large new refinery in Edmonton, Alberta. Upon completion of this new unit, British American Oil will have three western refineries with an annual capacity of 6.5 million barrels.

The astonishing spurt of the television industry of late, after limping along for two decades, has collateral aspects. Aside from manufacture of TV sets and televising equipment, the program telecasters eventually may share in the pie in a big way. According to Ernest H. Vogel, market manager for the **General Electric Company's** electronics division, American business by 1955 will be spending a billion dollars annually to bring top-notch TV programs into 24.6 million homes. He estimates that 513 television stations interconnected with four major networks will be in operation by that time, and that 28 million sets will be in use with 3.6 million homes having two sets. Viewed from another angle, 71% of all families in the United States should be served by at least two stations within the next five years.

Anheuser-Busch, Inc., after long concentrating on production of beer in the Midwest, expects to break ground on March 30 for its new $20 million brewery in Newark, New Jersey. This will be the largest facility of its kind constructed since the repeal of prohibition, and the annual capacity should be close to one million barrels.

Few large concerns going in for diversification in recent years seem to have benefitted so incisively as **Eastman Kodak Company,** or are likely to experience such increasing advantages from diversification policies. Products quite unrelated to the camera business now account for a substantial portion of over-all sales. The vigorous growth of the Tennessee Eastman division, which makes rayon and plastics, was reflected by sales in 1949 that equalled about 21% of the parent's total volume. When Eastman's new $6.5 million chemical plant in Texas, now under construction, is completed, further diversification will be achieved.

Baldwin Locomotive Works has called the attention of its stockholders to the increasing difficulty of competing with foreign manufacturers of steam locomotives and other heavy machinery, now that plant rehabilitation overseas has progressed substantially. Between rising costs here at home and devaluated currencies in foreign markets, competitive problems have become acute.



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Texas Gulf Sulphur Corporation

As a subscriber to your valued magazine, I would appreciate information on Texas Gulf Sulphur Corporation's sales revenues, net income, dividends and asset position.
C. F., Oak Ridge, Tenn.

Texas Gulf Sulphur for the year ended December 31, 1949 showed a net income of $23,863,192 after deducting charges of $537,687 for depreciation and $1,619,041 for amortization. The net income was equal to $7.14 per share on 3,340,000 shares of capital stock in the hands of stockholders. Net income for the year ended December 31, 1948, after all charges, was $24,231,159 or $7.25 per share on the same basis of 3,340,000 shares. Gross revenue from sulphur sales was $59,170,628 compared with $61,183,073 in the previous year, in which the company's tonnage sales of sulphur established a record high.

During the year the company supplied approximately 64% of the sulphur required by Sulphur Export Corporation for its sales made abroad and for this reason the company's net earnings were higher than would have been the case had it supplied the usual 50%. Sulphur Export Corporation has advised that it does not expect to call on the company to supply more than 50% of the tonnage required for its export sales during 1950.

Total current assets as of December 31, 1949 were $29,769,268, including $16,355,834 of cash, $5,269,000 in U. S. Government obligations and $7,977,934 of customers' accounts receivable. Current liabilities were $11,456,857.

Earned surplus, after deducting $16,700,000 representing dividends paid during the year, amounted to $51,755,743 compared with $44,592,551, at the end of 1948. Earned surplus is restricted in the amount of $27,500,000, the cost of 500,000 shares of capital stock reacquired and held in the treasury.

Construction of the company's plant at Worland, Wyoming for the recovery of sulphur from sour natural gas produced by the Pure Oil Company is practically complete.

A Mexican subsidiary of the company has entered into an agreement with representatives of Mexico granting rights for exploration and the mining of sulphur in the State of Vera Cruz. Surveying and geophysical operations to guide in the selection of areas for exploratory drilling are underway.

Dividends in 1949 totaled $5.00 per share and a total of $1.25 a share was paid in the first quarter of 1950.

Continental Motors Corporation

Please furnish information as to recent earnings, dividends and working capital position of Continental Motors.
W. I., Brooklyn, N. Y.

Consolidated net earnings of Continental Motors Corporation for the fiscal year ended October 31, 1949 were $1,801,205, or 55c a share on the 3,300,000 shares outstanding. This compared with net earnings of $3,378,123 or $1.02 a share in 1948 fiscal year.

Net sales were $73,192,294 in 1949 against $108,157,527. Working capital was $22,797,306 at the close of the year against $20,486,835 a year earlier. Inventories were reduced $4,548,103 during the year, and amounted to $13,868,364 on October 31, 1949. For the quarter ended Jan. 31, 1950, net profit was $461,693 or 14c per share on sales of $15,969,003.

Two dividends of 10c each were paid in fiscal 1949 and another of like amount was paid on March 4, 1950.

43% of Continental's output last year went to the agricultural industry, 14% was for industrial use, and 12% went to the transportation industry. Replacement parts and machine products accounted for 21% of the total, with airplane, marine and military engines comprising the remaining 10%.

Sales of tank engines under the $18 million Ordnance Department contract announced a year ago, totaled $2,597,956 in fiscal 1949. The balance of this contract is to be completed in the calendar year 1950. Negotiations are under way for production of a similar but smaller engine for the Ordnance Department when the present contract is completed.

Approximately 33,000 engines should be shipped in March, or 30% above average monthly shipments last year and less than 25% under the 1948 average.

Detroit Edison Company

As I am interested in securing information on Detroit Edison Company, please advise on company's expansion program, recent revenues and dividends.
T. J., New Bern, N. C.

Detroit Edison Co. earned $1.73 per share on the shares outstanding at the year-end and $1.86 per

share on the average number of shares outstanding during 1949. Regular quarterly dividends totaling $1.20 a share were paid during the year.

To finance 1949 and 1950 construction, the company has sold $14 million of new stock; $10 million of ten-year, 2½% notes; and has arranged to sell $30 million of 30-year, 3% notes. The company invested $51 million in new construction during 1949.

Electric revenues were about $14 million above those of 1948. The cost of doing business last year increased $11,549,000.

The company reported an increasing use of electricity by all classes of customers except some industrial customers where use was curtailed because of strikes last year.

Industrial output of Detroit this year is expected to at least equal that of 1949 and 1948. This belief, coupled with the increasing use of electricity by domestic and commercial customers, makes advisable a continuation of the company's present 400,000 kilowatt expansion program without interruption.

Associates Investment Company

Please give comparative earnings of Associates Investment Company in the past two years and outlook for 1950.
H. R., Harrisburg, Pa.

Consolidated net earnings of Associates Investment Company for 1949 were $9,057,066, compared with $6,776,261 in 1948. The latest year's income was equal to $8.69 a share on 1,041,824 shares of common stock outstanding, compared with $6.50 a share on the same number of shares the year before.

Total receivables outstanding also reached an all-time peak, aggregating $225,935,113 as compared with $205,968,000 at the end of 1948. Primary factor in the increase was a gain in outstanding automobile retail instalment notes, which amounted to $172,767,389 at year's end, an increase of $40,186,586 over the preceding year's total.

Unearned finance discounts, which represent the deferred income that will be taken into future earnings, amounted to $12,633,868 at the close of 1949, compared with $10,822,355 the year before.

While the total volume of finance business for 1949 was $596,317,507, comparable with $609,011,138 the year before, there were important changes in its composition. Purchases of motor lien retail instalment notes increased from $224,851,767 to $264,138,996, while purchases of motor lien wholesale short-term notes decreased in the same proportion, from $306,575,331 in 1948 to $254,144,272 in 1949. The changes reflected company's reconversion to a normal buying program, primarily servicing new car dealers and acquiring approximately 50% of retail auto volume in new cars. The rapid decline in used car prices resulted in less favorable collection experience and somewhat higher losses on repossessed automobiles. This situation, however, was anticipated by having formerly provided sufficient loss reserves from higher discount rates, so that net results were satisfactory. It is expected that losses will be materially reduced in 1950.

As the method of selling automobiles gradually returns to the pre-war pattern, company can expect an increasing percentage of new and used cars will be sold on a time-payment basis.

Dividends in 1949 totaled $2.90 per share and current quarterly rate is now 90c per share.

Prospects for 1950 appear favorable.

Admiral Corporation

I understand Admiral Corporation had a banner year in 1949. Please give me detailed report on sales volume, net income, dividends and prospects over coming months.
H. A., New Bedford, Mass.

Admiral Corporation recorded an all-time high in net earnings of $8,239,582 for 1949 on sales of $112,004,251. Per share earnings amounted to $4.12 on 2 million shares outstanding.

In 1948, with a sales volume of $66,764,265, Admiral netted $3,639,025, or $1.82 per share, on an equivalent number of shares.

On December 31, 1949 the company's net worth was $18,024,048 as compared with $10,814,886 a year ago, an increase of 67%.

The final quarter of 1949 set a new record as Admiral earned a net of $3,608,008 on sales of $34,926,100 for $1.80 a common share, as compared to previous year's final quarter net of $1,601,239 on sales of $24,249,757, or 80c a share. Company was recently producing television sets at the rate of 700,000 annually. Increased plant capacity, now under construction, assures the company of the space required to produce one million sets this year. The company has set a sales goal for this year greatly beyond the record figures of 1949. First quarter 1950 sales are expected to show a substantial increase over the $23,500,000 for the first quarter of 1949.

Introduction of a completely new refrigerator line in January has incraesed orders substantially in that division alone for the first quarter of 1950.

Four quarterly dividends of 20c in cash was paid in 1949 and 100% stock dividend was paid on December 7. Current quarterly dividend has been increased to 25c per share.

General Time Corporation

Please explain the reason for the decline in net income for General Time Corporation last year and also advise on sales volume and dividends.
F. N., Maryville, Missouri

Net income of General Time Corporation in 1949 amounted to $2,471,350, equivalent to $5.74 per share on the 402,607 common shares listed on the New York Stock Exchange, after giving effect to a stock dividend paid in January of this year. This compares with 1948 net income of $3,291,863, equivalent on the same basis to $7.70 per common share. The 1949 accounting year covered 52 weeks as against 53 weeks in 1948.

Both sales and net income of General Time and its consolidated subsidiaries last year were the second largest in the company's history, being exceeded only by the record year, 1948. Sales for 1949 totaled $31,740,110, compared with $34,600,324 the year before, a decline of about 8.3%.

Sales of General Time Corporation's new foreign subsidiaries have not been included in the con solidated statement. Based on current value of foreign exchange, sales by these unconsolidated foreign subsidiaries increased by about $750,000 over the year 1948.

Although the clock and watch industry suffered a severe decline in the forepart of 1948, a large segment of the company's business moved against this trend and some of the company's best known products were recently on allocation. During the latter part of 1949 an increase in general business activity was helpful to the company and the industry as a whole.

Factors in the lower net income

(*Please turn to page* 703)

Thank you, America

for the biggest year in *Lorillard* history

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

For the Year Ended December 31, 1949 *With Comparative Figures for 1948*

	1949	*1948*
Sales, less Discounts, Returns and Allowances	$153,500,123.48	$140,279,236.56
Cost of Goods Sold, Selling, General and Administrative Expenses	141,436,937.53	130,276,521.18
Operating Income	$ 12,063,185.95	$ 10,002,715.38
Other Income	160,076.51	165,474.95
	$ 12,223,262.46	$ 10,168,190.33
Interest on Funded Debt	$ 857,272.50	$ 868,972.50
Amortization of Debenture Expense	13,039.98	13,318.64
Other Interest	141,816.65	142,059.96
	$ 1,012,129.13	$ 1,024,351.10
Income before Federal and State Income Taxes	$ 11,211,133.33	$ 9,143,839.23
Provision for Federal Income Taxes	$ 4,142,000.00	$ 3,353,000.00
Provision for State Income Taxes	245,000.00	145,900.00
	$ 4,387,000.00	$ 3,498,900.00
Net Income for year	$ 6,824,133.33	$ 5,644,939.23
Earned Surplus at beginning of year	23,270,020.61	21,680,980.35
	$ 30,094,153.94	$ 27,325,919.58
Dividends on Preferred Stock ($7 per share)	$ 686,000.00	$ 686,000.00
Dividends on Common Stock (1949, $1.75 per share; 1948, $1.50 per share)	3,931,549.84	3,369,898.97
	$ 4,617,549.84	$ 4,055,898.97
Earned Surplus at end of year	$ 25,476,604.10	$ 23,270,020.61

Depreciation provided—1949 $635,475.32 • 1948 $501,946.45

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1949 With *Comparative Figures for 1948*

ASSETS

CURRENT ASSETS:	*1949*	*1948*
Cash in banks and on hand	$ 5,762,370.59	$ 5,632,438.89
Accounts receivable—trade (less reserves 1949 $650,783.89; 1948 $630,073.28)	6,993,209.17	6,300,891.00
Other accounts and notes receivable	147,759.44	146,935.33
Inventories, at cost:		
Leaf tobacco	66,571,806.70	64,269,906.99
Manufactured stock and revenue stamps	5,932,642.74	5,390,534.52
Materials and supplies	2,488,505.73	2,877,831.66
Special deposits—contra	836,615.09	631,921.16
Total current assets	$ 88,732,909.46	$85,250,459.55
PROPERTY, PLANT AND EQUIPMENT, as adjusted December 31, 1932 by authorization of stockholders, plus subsequent additions at cost, less retirements	$ 17,707,279.92	$16,726,561.13
Less: Reserves for depreciation	6,613,238.36	6,217,154.74
Total property, plant and equipment	$ 11,094,041.56	$10,509,406.39
BRANDS, TRADE MARKS AND GOODWILL	$ 1.00	$ 1.00
DEFERRED CHARGES:		
Prepaid insurance, advertising and taxes	$ 509,266.06	$ 473,362.32
Unamortized debenture expense	66,865.87	70,905.85
Miscellaneous	231,143.76	177,975.08
Total deferred charges	$ 807,275.69	$ 722,243.25
	$100,634,227.71	$96,482,110.19

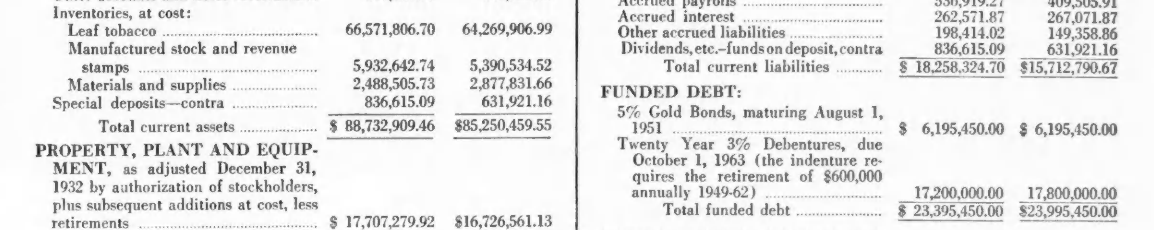
LIABILITIES

CURRENT LIABILITIES:	*1949*	*1948*
Notes payable—banks	$ 9,000,000.00	$ 8,000,000.00
Accounts payable—trade	1,885,510.56	1,777,829.27
Twenty Year 3% Debentures (due within one year)	600,000.00	600,000.00
Accrued taxes	4,938,293.89	3,877,103.60
Accrued payrolls	536,919.27	409,505.91
Accrued interest	262,571.87	267,071.87
Other accrued liabilities	198,414.02	149,358.86
Dividends, etc.–funds on deposit, contra	836,615.09	631,921.16
Total current liabilities	$ 18,258,324.70	$15,712,790.67
FUNDED DEBT:		
5% Gold Bonds, maturing August 1, 1951	$ 6,195,450.00	$ 6,195,450.00
Twenty Year 3% Debentures, due October 1, 1963 (the indenture requires the retirement of $600,000 annually 1949-62)	17,200,000.00	17,800,000.00
Total funded debt	$ 23,395,450.00	$23,995,450.00
CAPITAL STOCK AND SURPLUS:		
7% Cumulative Preferred Stock, par value $100 per share: Authorized 99,576 shares Issued 98,000 shares	$ 9,800,000.00	$ 9,800,000.00
Common Stock, par value $10 per share: Authorized 5,000,000 shares Issued 2,246,681.89 shares	22,466,818.90	22,466,818.90
Paid-in Surplus	1,237,030.01	1,237,030.01
Earned Surplus, as per statement ($12,541,469.88 not available for cash dividends on common stock under provisions of debenture indenture)	25,476,604.10	23,270,020.61
Total capital stock and surplus	$ 58,980,453.01	$56,773,869.52
	$100,634,227.71	$96,482,110.19

We'll be glad to send you a copy of our illustrated Annual Report for 1949. Write P. Lorillard Company, 119 West 40th Street, New York 18, N. Y.

P. Lorillard Company

AMERICA'S OLDEST TOBACCO MERCHANTS | ESTABLISHED 1760



Main Street, U.S.A., Where America Buys Lorillard Tobacco Products

so well...

A CLEAN, SAFE PAN is any pan made of stainless steel because this ever-bright material is so easy to keep free from contamination. When you buy a utensil bearing the U·S·S Stainless Steel label, you know that the steel was made by United States Steel—that it is perfect for its purpose, that it is easy to clean, and corrosion-resistant all the way through.

TIRES DEFY DESTRUCTION! Newest thing in tires is the use of high tensile steel wire to replace cotton or rayon cord, producing what engineers believe to be the most rugged pneumatic tire ever built. It runs cooler under heavy loads at high speeds, gives more mileage. Development of hair-like strands of U·S·S Tire Cord Wire, strong enough to take the constant punishment of tire flexing, was accomplished after extensive research by scientists of United States Steel.

MANUFACTURED FROM
USS
TRADE MARK
STEEL
UNITED STATES STEEL

...and this label is your guide to quality steel

UNITED STATES STEEL

Helping to Build a Better America

DIVISION • CARNEGIE-ILLINOIS STEEL CORPORATION • COLUMBIA STEEL COMPANY • CONSOLIDATED WESTERN STEEL CORPORATION • GERRARD STEEL STRAPPING COMPANY
COMPANY • UNITED STATES STEEL PRODUCTS COMPANY • UNITED STATES STEEL SUPPLY COMPANY • UNIVERSAL ATLAS CEMENT COMPANY • VIRGINIA BRIDGE COMPANY

Fact and Fantasy in Russia's Talk About Economic Strength

(*Continued from page* 669)

setbacks is bound to have external implications. The Russians will be able to tie the Eastern European satellites more closely to their wagon, and make a bid for increased trade with Western Europe, Western Germany in particular.

Insofar as the West is concerned, the upvaluation of the ruble — which by law continues to be a strictly internal currency —from 5.3 to the dollar (19 cents nominal) to 4 to the dollar (25 cents nominal*) is not only meaningless but a rather ridiculous attempt on the part of the prophets in the Kremlin to enhance the international prestige of their currency. Insofar as international trade transactions with the West are concerned, they will still be conducted in western currencies.

Impact On Satellites

But for the satellite countries the up-valuation may have a different and costly meaning. In the first place, the value of dollars, pounds, francs, and other foreign currencies which the satellite countries deliver to the common pool in Moscow (the value of their contributions has been estimated at $150 to $200 million) will now be worth considerably less in rubles. At the same time the satellite countries which are desperately short of raw materials and capital goods will now have to turn almost exclusively to Russia to get them. And they will have to pay *more* rubles for them. Thus Czechoslovakia, Poland, Hungary, Roumania, and Bulgaria are caught by the Soviet currency manipulation coming and going.

It would be a mistake to think, however, that the Russian economy is out of stormy waters, even though the major war-devastation has been repaired. On the contrary. The standard of living needs to be raised and the quality of consumer goods, often unbelievably bad, improved. The transportation system requires attention. Russian railways are backward and the available equipment is overworked.

The production of oil, disrupted by war, lags far behind the country's needs and the sinking of new oil wells is far behind because of the lack of equipment. Russia faces also the problem of exhaustion of her known iron ore reserves. The high grade deposits in the southern Urals are nearing depletion. In general, the picture of the Soviet economy reveals a great unevenness in the development of industries, many bottlenecks and many weaknesses.

Resources Not Inexhaustible

Moreover, Russian resources are by no means inexhaustible or as extensive as is generally believed. It is true, for example, that the area of the Soviet Union is nearly three times as large as that of the United States. But it must be remembered that an area nearly half as large as the Continental United States is a treeless, unproductive tundra. The total acreage under crops is about 500 million acres or about 100 million more than in the United States. Despite all the advances and the increased use of fertilizer, crop yields remain far below those of the United States. Some of the best black soil brings forth only three good crops out of every four because of drought and other climatic disadvantages.

With the industrial population of Russia increasing — as it has during the past few years — at the rate of about 2 million a year, there is a question whether the output of food can keep up. It seems that the solution of the problem of sufficient food for everybody is still far off — if it ever will be solved.

In summary, Soviet Russia may have made considerable progress in postwar rehabilitation but she is also beset, and will continue to be beset, with enormous weaknesses and difficulties of economic and social character which must certainly be taken into consideration, and realistically so, in any attempt to appraise her strength. Oil is her "Achilles heel," and without adequate oil supply, no country can carry on modern war for long. Her consumer goods industries, deliberately throttled in favor of capital goods and armaments, are barely able to meet minimum requirements of her growing population. And the resultant miserable standard of living is certainly not a booster to morale. In a communistic state, "deficiencies" of this sort can of course be glossed over; the terror takes care of the mal-contents. But it cannot be a source of strength. Nor can, for any length of time, economic power based on compulsion and misery for the masses.

*In the Moscow black market the dollar is reported to bring currently 40 to 50 rubles, or about ten times as much as the official rate a few months ago the dollar brought from 60 to 70 rubles.

Revised Steel Prospects for 1950

(*Continued from page* 674)

have greatly strengthened their finances in the last decade. A comparison of a dozen typical companies discloses, for example, that whereas indebtedness had increased slightly to $674 million from $640 million eleven years earlier, ratio of debt to sales volume actually had dropped to a little more than 9 per cent from 24 per cent. Total assets of the twelve companies increased almost 50 per cent from 1937 to 1948. Moreover, preferred dividend requirements of these companies represented 25 per cent of net income in 1937 but only 9 per cent in 1948.

High Replacement Costs

Moreover, steel mills could not be replaced today for anything like the modest amounts at which plants are carried on current balance sheets. Figures compiled by United States Steel, which probably are typical for the industry, show that costs of replacements are about six times greater than at the beginning of the century. They are about two and a half times those of 1925 and about double those of 1939.

Coke ovens, as an example, show an increase in cost of 130 per cent over 1939 and blast furnace costs show a similar cost advance of 132 per cent. On the average, in all construction undertaken by U. S. Steel, costs in the ten-year period showed a gain of 95 per cent. This trend should indicate intrinsic values in depreciated plants of representative steel companies that are modestly appraised in today's market.

Appraising Strength of the Auto Industry

(*Continued from page* 678)

duced prices, earnings of Hudson Motors were probably somewhat less than the $7.28 reported in 1948. Volume of Packard rose 14% in the first nine months of 1949, but heavier expenses and taxes plus fourth quarter difficulties because of the steel strike reduced net earnings to a point where the directors recently decided to omit dividends.

Far less pleasing is the picture presented by the truck manufacturers. It is expected that White Motor will report earnings around 75 cents a share compared with $4.98 a year earlier. Mack Trucks undoubtedly ran heavily into the red, and only moderately less unfortunate was Federal Motor Truck Co. Diamond T probably earned a small amount compared with 1948 net of $2.64 per share. The stronger independents in the truck division appear confident that increased replacement demand will improve their sales and earnings in the current year, but they are facing record competition from the "Big Three" as well as from International Harvester. The latter concern has spent $30 million in postwar to expand its production of trucks, and plans intensified sales activity this year.

Looking ahead into 1950, analysts are pointing out that production of more than 700,000 cars and trucks was lost in the last six months because of the steel, coal and Chrysler strikes, thus creating a deferred demand that should help stabilize operations in future months. It should be realized, though, that after the Chrysler difficulties are settled, the labor unions plan to tackle General Motors in June.

Should this controversy seriously curtail production of GM, it may give Chrysler a better chance to catch up and temporarily revise the competitive picture of the industry. It remains to be seen, though, to what extent strikes may continue to upset the normal expectancies in the field. It is extraordinary that despite strike handicaps, the auto industry produced more than 1.3 million cars and trucks in the first quarter of 1950 compared with barely more than 1.1 million in the same period last year.

Owners of automobile shares would be wise to expect earnings in 1950 to be moderately lower for even the best situated concerns, not only because of prospectively lessened unit demand but because of reduced prices. Practically all of the models carry lower price tags than a year ago and as competition sharpens, further price cuts may follow. While economies resulting from competition of modernization programs may tend to stabilize margins of many auto makers, rigid overhead and wages, not to mention new pension plans, will likely exert increasing pressure on profits.

Though dividend casualties were numerous among truck manufacturers last year, most of the leading makers of passenger cars raised their disbursements in 1949. The action of Packard recently in omitting dividends clearly shows the effects of heavy competition as well as operating difficulties, a factor that counsels caution in the case of a few other situations.

On the other hand, the financial condition of many auto makers has been so strengthened in postwar, while completion of improvement programs has eased working capital needs, that distribution of a more liberal portion of earnings may be anticipated. Hence the outlook for generous dividends by General Motors and Chrysler is bright, and the same holds true for a few of the independents such as Studebaker, Hudson and Nash.

Shares of the leading auto makers for some time have rather closely followed the pattern of the general market. By and large, current share prices allow rather amply for the prospect of probably somewhat smaller earnings in 1950. Acquisitions under current conditions nevertheless should be highly selective with due regard for proper timing.

Improved Earnings Outlook for Rubbers?

(*Continued from page* 681)

metal items. Reduced demand for replacement tires was not fully offset by larger original equipment shipments and non-automo-

tive sales were also down somewhat. Moreover, rising costs and stiffening tire price competition had its effect on profit margins, which henceforth should show some benefit from latest price advances. The company's record within the group has been outstanding and continued substantial earnings are indicated.

U. S. Rubber Co.

The management of U. S. Rubber Company expects unit tire sales this year to equal about those of 1949, and looks to better profits if present advanced prices continue through 1950. Last year's earnings were affected by lower selling prices which reduced the profit margin on several major rubber products, but a substantial improvement was reported for the fourth quarter reflecting price increases.

Two unusual items are reflected in 1949 net income. A net loss, after reserves, of 1.98 million resulted from the lower value of foreign assets in terms of devalued foreign currencies. But this net loss was more than offset by the credit to net income of \$2.44 million for income tax accruals provided in prior years and now found to be unneeded. The effect of these adjustments was a net credit to 1949 earnings of \$458,093.

The company derives about half of sales from its tire division, and the rest from more profitable mechanical rubber goods, footwear and other items. The net profit margin last year was reduced to 5% from 6.6% in 1948. Improved profits this year are in prospect.

Unsettled price conditions within the industry largely accounted for lower sales and profits last year of General Tire & Rubber Company. Moreover, a substantial portion of profits from foreign operations was not brought back to this country and therefore not included in the income statement. With improved cost-price relationships in 1950, there should be a substantial earnings recovery this year. Additionally, the company's Aerojet division should maintain a high level of activity, what with continued emphasis on guided missles, rockets and other modern weapons necessary to national defense.

Essentially, 1950 will be a test period for pricing policies and postwar planning programs for the rubber industry, a period which, it is hoped, will bring at least adequate correction of the "unrealistic" price-cost relationships that prevailed last year. Additionally, increased production and sales emphasis on industrial and other rubber products is contemplated in an industry drive to stabilize earnings and income at high levels. The non-tire program is still operating at a relatively small fraction of its potential and can be considerably expanded.

Advance estimates expect 1950 sales volume of the industry to hold around the 1949 total of close to \$3 billion, but profit margins should be somewhat better. This holds out the prospect of earnings recovery even for the depressed small producers. Exports, though not very significant from an overall standpoint, may well continue in the downtrend characterized by last year's drop of 13.6%.

Unless international considera-

tions dictate a later shift in policy, the industry will continue to benefit from the ceiling placed on the price of its major raw material — synthetic rubber — and from the accompanying brake on fluctuations of both the synthetic and natural raw material. Efforts of British and Dutch rubber growers aimed at curtailing production of synthetic rubber in this country have so far been unsuccessful but may be expected to continue. It is difficult to envisage, however, how this country could ever be persuaded to give up the tremendous advantage accruing from a readily available, safe and reasonably priced raw material supply which, incidentally, has imparted the rubber industry a far greater degree of stability than ever before.

Moderate Price-Earnings Ratios

From a market standpoint, the group as represented by the shares of the leading concerns has moved about in line with the general market, but despite recent price advances continues to sell at moderate price-earnings ratios. Yields are liberal and, in the case of the better situated concerns, attractive. Proof of ability to achieve greater income stability should ultimately leave room for price enhancement.

Recent Dividend Omissions —Reductions

(*Continued from page* 663)

pany's highly variable operations even under more normal conditions, it remains quite speculative.

Eagle-Picher Company since March 1948 maintained a regular quarterly dividend of 45c a share but last January reduced it to 30c as a matter of prudence, and despite its strong financial position. Due to acquisitions and expansion and modernization programs in postwar, net current assets have tended downwards and directors felt that dividends should be kept on a conservative basis and, if possible, working capital should be increased.

Conservatism is also dictated by the earnings trend. The company for its fiscal year ended November 30, 1949, reported a net loss of $1.95 million compared with net earnings of $5.56 million in the preceding year but a net credit to earned surplus was made possible by transfer of $4.7 million from the reserve for future decline in inventory values.

However, there has been a net operating loss of some $820,000 largely due to highly unsettled conditions in the lead market. The price of lead dropped from an all-time high of 21½¢ a pound early last year to 12¢, a price which has been in effect since last November 2, and was slashed further to 11½c a pound this month reflecting a growing surplus of supplies (including a heavy flow of imports) and sharply reduced demand due to price uncertainties. In the light of the latest price development, the company's dividend action apears well advised, for it is bound to affect earnings. The price drop has been foreshadowed in recent weeks and this undoubtedly played a part in the decision to reduce the dividend. Until the price structure is stabilized, dividends are likely to continue conservative. Pending clarification of the outlook, the stock lacks attraction.

Chesapeake & Ohio

Chesapeake & Ohio Railroad, which has paid dividends without interruption since 1922, took no dividend action at its February meeting, a step that was not altogether surprising in view of the road's recent difficulties. Last year, a total of $3 was paid at the quarterly rate of 75¢. Passing the dividend took into consideration the sharp earnings decline in 1949, to $1.36 a share from $3.72 earned in 1948, as a result of the fact that soft coal mines last year were closed down for a total of 101 days, the longest period in 25 years, and moreover much of the time worked on a three-day basis. In January, curtailed coal traffic because of work stoppages in the mines cut net income to a mere $187,110 compared with $2,456,127 in January a year ago, and in February, because of the coal strike, there was a deficit of $2,889,242 or 38¢ a share, compared with net income of 27¢ a share in the same month a year ago.

Forthcoming Improvement

The plight of C. & O., which is the largest originating road for soft coal traffic, presumably will abate now that soft coal mines are back on a five-day basis and a heavy increase in its loadings is anticipated in the near future. However, due to the traditional instability of coal mine operations, its vulnerability to future work stoppages remains. While the road has been endeavoring to diversify its freight business, coal will continue to be, in normal times, the principal commodity carried. For the time being, a sharp earnings recovery is indicated which may lead to reconsideration of dividend policy at the next meeting in May. Substantial operating savings recently instituted should contribute to a distinctly better showing.

Anticipating this, the stock has been holding up quite well despite the dividend omission and it doubtless is worth holding on a speculative basis. Approaching termination of large capital expenditures is helping to strengthen working capital and this should have a bearing on future dividend decisions. More stable conditions in the coal mines is however a requisite of satisfactory earnings in the long run. Under the newly signed UMW contract, no strike is to take place for a year or so but there is some doubt whether this provision will be honored once coal surpluses again begin to mount, as they will if the five-day week is continued.

Paraffine Companies, Inc., a leading producer of floor coverings and building products, cut its dividend from 30c to 15c in view of reduced earnings resulting from closure of the main plant by a strike from June 16 to October 2 last year, and of the desirability of retaining earnings for working capital in anticipating of opening of its new plant in New Jersey.

Net profits for the fiscal year ended June 30 dropped to $2.14 a share from $2.40 earned in the preceding comparable period, and a deficit of 36c was incurred in the three months ending September 30. The subsequent quarter, to December 31 last, produced net profits of 37c, leaving net income of one cent per share for the first half of fiscal 1950.

Good Basic Demand Conditions

Since a recurrence of last year's handicaps is not likely and basic demand conditions should remain reasonably good, there should be a marked earnings recovery henceforth though because of its poor start, earnings in fiscal 1950 may not exceed $1.50 a share. A *current* annual earnings rate of between $2.50 and $3 is indicated. Whether the recovery, in view of working capital requirements, will lead to early liberalization of the reduced dividend is somewhat doubtful though this of course will be subject to later decisions. At the present reduced rate, the stock has no attraction from a yield (3½%) standpoint but long term growth possibilities cannot be overlooked.

For Profit and Income

(*Continued from page* 685)

Trucks

The motor truck makers seem at or near their own cyclical low point in demand, but can remain "in the valley" for another year or two. Hence, there is no hurry about buying the stocks. They undoubtedly can be had below present prices in periods of general market pressure. But there is probably an excellent speculative opportunity in them somewhere ahead, and to be watched for.

Pros and Cons in Open-End Investment Trusts

(*Continued from page* 671)

equalled 28% of new sales and amounted to $107.5 million, although the trend toward liquidation was much more pronounced in the first six months than in the last half year. Redemptions have averaged 38.4% of new sales for the past ten years.

It seems a logical conclusion, that from a general market standpoint, operations of the open-end trusts are apt to intensify major market trends whatever their direction. In boom periods, they are likely to assist any uptrend of security prices, and they may well have the reverse effect in periods of declining markets.

Apart from this, and from the standpoint of the individual investor, the balance of arguments seems to confirm that the average investor, particularly if assisted by expert counsel, can employ his funds more advantageously by handling his own account. Not only can he better attune his selections to his personal objectives but he is always free to pursue highly flexible policies if such should be necessary. Moreover, his rate of income return should be superior to that afforded by most trust share investments.

Answers to Inquiries

(*Continued from page* 694)

last year, were the lower sales, some price reductions and the shorter accounting year. There was also a non-recurring charge against profits of $139,240 arising from a foreign exchange adjustment, due to the decline of the U. S. dollar value of the company's equity in net current assets of foreign subsidiaries.

Dividends in 1949 amounted to $1.60 per share and a 10% stock dividend was also paid.

What's Behind the Figures In Annual Reports

(*Continued from page* 660)

portion of earnings apparently can be allotted to stockholders, dividends at an annual rate of $3 per share seem safe.

Libby-Owens-Ford

Net income of Libby-Owens-Ford Glass Company rose sharply to $8.20 per share in 1949 from $5.56 in 1948. This gain reflected an 18.2% rise in sales and economies derived from expenditures of $26.9 million for plant improvements in postwar. The company maintained its position as the leading supplier of safety glass to the automotive industry that experienced a record year in 1949, besides forging ahead with sales of Thermopane, the laminated glass that has proved increasingly popular as window glass for residential and industrial structures. It is interesting to note that without raising prices last year, Libby-Owens-Ford increased its operating margin to 27.7% from 23.6% in 1948. Additionally, the record high earnings were after provision for accelerated depreciation of high-cost facilities.

Phelps Dodge Corporation

The severe drop in copper demand, attended by sharply lower prices for the metal in the forepart of 1949, accounted for lower earnings by Phelps Dodge Corporation, net per share of $6.85 comparing with $10.30 in 1948. In this case, as in many others, it is interesting to note how reduced requirements for taxes cushioned the decline in net. In other words while pretax earnings dropped about 38%, a provision for all taxes of $16.8 million in 1949 compared with $29.3 million in the previous year, a decline of 44%.

The recovery of copper prices to around 18½ cents a pound in the second half of last year reflected improved demand, hence earnings in the final six months showed signs of improvement. At the close of 1949, the corporation had no stocks of copper on hand other than in process or working stocks, Phelps Dodge and its subsidiaries having delivered 615.9 million pounds of the red metal to customers in the course of the year, production from company mines accounting for 464.4 million pounds.

National Dairy Products

The leading dairy firms enjoyed a very prosperous year in 1949. National Dairy Products Corporation, for example, reported net earnings of $5.26 per share versus $4.03 the year before. This encouraging progress was achieved although volume of $897.6 million was about 9% lower than in the preceding year, the decline wholly accounted for by price reductions made by the company. Costs of milk and other materials, however, declined 20%, widening profit margins to 6.3% from the 1949 level of 4.1%. In relation to sales last year, net earnings were equal to 3.7 cents per dollar in contrast to 2.6 cents the year before. During 1949, the company reduced inventories by more than $9 million, paid off $1 million of funded debt, raised dividends by 40 cents a share, spent $32 million for capital improvements, and yet increased working capital by $8 million to a new peak of $124 million.

Celanese Corporation

In his annual message to stockholders, Dr. Camille Dreyfus, chairman of Celanese Corporation, pointed out his early hope that 1949, the 25th year of operations, would be the most successful in history, but the inevitable postwar readjustment period intervened. In March and April last year, normally the time of peak sales to the textile industry, the mills were drastically liquidating inventories and cutting fabric prices. Recovery was very gradual until the latter part of the year but then picked up to require maximum capacity operations by Celanese.

For the year as a whole, a volume decline of $59 million or more than 25% depressed earnings to $3.19 per share compared with $6.61 in 1948; net of $1.60 a share in the final quarter was by far the best of the four periods. During the entire year, though, quarterly dividends of 60 cents a share were paid. As far as can be foreseen, 1950 should be a much more satisfactory year, as textile operations have been at a fairly high level so far and while a slower pace will develop, there should be no such drastic experience as last year.

Is Revaluation of Business Prospects Necessary Due to Coal Strike?

(*Continued from page* 658)

ment, any drop in industrial activity later this year should remain moderate but it is difficult to hold with those who argue that no drop is in store. This would be carrying optimism too far. A highly industrialized and versatile economy such as ours can take even major strikes in its stride without interruption of basic trends which at this time still spell more adjustment to come.

The Trend of Events

(*Continued from page* 652)

tenacity an idea long close to his heart — solidarity of all labor in its fight against management.

One shudders to think what might happen if such solidarity were achieved and manipulated by a man of Mr. Lewis' proven irresponsibility to the welfare of the nation, and, we might add, to his followers as well who frequently have been the main sufferers in his audacious game. Fortunately the other labor leaders are hardly likely to fall in with Lewis' ideas. They are apt to examine his plans circumspectly and with the distrust which Mr. Lewis deserves, fearing a time bomb or worse. Not without justification, they are inclined to feel that Mr. Lewis' actions constitute nothing but a shrewd play for balance of power between AFL and CIO, to be controlled, of course, by Mr. Lewis himself. They cannot be blamed for not liking the idea.

As I See It!

(*Continued from page* 653)

ing and injustice.

These were the people who later made excuses for the Russians when they refused to collaborate with us, because they believed there was good reason to distrust the West, and Russia permitted very little of the true situation to filter through, her propaganda continuing to make them believe that the suffering Russian people were making the sacrifice for the world toward the goal of happiness, security and plenty for all mankind.

While many were disillusioned when Russia lined up with Hitler, there were others who expressed awe for the wisdom of Stalin — as a sort of bear lying down with the wolf — so as better to be able to destroy his victim later.

The Russian regime grew strong, feeding on adulation of this sort in high places. Only too late, many saw the truth — even as Dr. Klaus Fuchs.

Idealism Without Realism

Today, in the desperate situation in the Far East, we see the bitter results of idealism without realism. And we surely don't want that kind of thing in the conduct of our affairs.

We should not permit Mr. Acheson to lead us into recognition of Red China, which Mao Tze-Tung won by guile and chicanery — by playing on the heartstrings of the millions living under century-old feudalism, suffering under the traditional oppression of the tax collector, the bandit, and the greed of individual landlords, bureaucrats and war lords, which deprived them of the means for eking out an existence in a land devastated and torn by the unendurably long Japanese and civil wars.

Today the Reds, finally in complete control (and, if I may say so, largely as the result of the White Paper issued by our State Department) are exacting even greater taxes, as is their wont, and absorbing all the production, too, for the maintenance of their army — and are again bringing starvation and degradation to millions of hapless Chinese.

The Russian victory in China — for it is a Russian victory — culminates two generations of Soviet scheming against the political integrity and economic well-being of that ancient land. The Russian leaders as far back as Lenin feared the competition of an industrialized — a modern China; feared that this nation of 400 million souls would interfere with the economic development of Russia's 200 million population.

Chinese People Face Starvation and War

We can be sure that the primitive agricultural methods and the return to ancient skills instituted by the Chinese Reds during the revolution will be continued, while starvation and wars for the glory of Russia will exterminate vast numbers of the population. In fact, the latest reports are that China is experiencing its worst famine in seventy-two years!

If it has not been clear before, it must be now — that the Russians have thus far shown no genuine capacity or interest in the well-being of any peoples, including their own — that they are purely political doctrinarians and that the basis of their success is their skill in intrigue and propaganda.

Therefore, to recognize Communist China as the legitimate government would be to sell the Chinese people down the river.

If the future of the United Nations depends upon such recognition, it is very weak indeed — and should be re-formed, with the veto eliminated, if that organization is to survive. Too many important decisions have been hamstrung by Russia's continuous use of this power. In fact, it has enabled the Kremlin to use the United Nations for its own purposes — as a source of information and for blocking any attempts to interfere with its aggressive policy, and by its negative attitude has so undermined the United Nations that it has deteriorated into a propaganda vehicle and adjunct of Russian policy.

We in the United States must recognize the realities of the situation and act accordingly. We should advise Red China that we will not permit the extension of their domain; we should offer direct help to Indo-China — to Chiang Kai-shek—and make the Philippines into a strong defensive base. And we should publicly announce our willingness to protect these countries against invasion by any aggressor nation.

As Russia is not industrially nor economically able to fight a shooting war at this time, any military aid Russia might extend to Mao would be rather limited. It would have the effect:

— Of taxing Russia economically and industrially for this war material, in a squeeze that would bring cries of distress;

— Of enabling us to gain knowledge as to Russian equipment which we do not now have;

— Of preventing our money from being tied up in obsolete war materials if a war with Russia should eventually come—which I doubt, if we handle the situation in this way.

Such determined action on our part would stimulate revolt against the Communist regime in China and prevent further Red expansion. It would hearten our allies everywhere.

Such action might deal a decisive blow also to Russia's latest attempt toward establishing a ruble bloc for, despite the pooh-poohing that has been going on regarding her latest currency move, the decision of Poland to quit the World Bank, with Czechoslovakia to follow, indicates that this may be another effort calculated to interfere with our economy, and attack the dollar and our trade potentials.

Our country must take some decisive action, for we cannot continue the tremendous drain on our economy and resources resulting from a continuous arms race between the United States and Russia. We must face the reality of the situation — i.e., that in the Soviet Union we have an implacable enemy who is convinced that its survival depends on our extinction.

I believe the great majority of the people of this country would back such a plan, which could be carried out with a minimum of danger by wise leadership.

Can The Market Go to 245?

(*Continued from* page 655)

fear, before glibly talked of market "objectives" materialize.

We do not have the rising trends of business activity, earnings and dividends—and speculative hopes of more and more such ammunition — that have always been required to nourish sustained peacetime bull markets. What do we have? (*Continued on next page*)

We have a reduced fear of business recession; a greater public confidence that fluctuations in business will be reasonably moderate, due largely to Federal spending programs. Although total corporate earnings are static at best, and probably subject to further shrinkage, we have a high level of dividends, and confidence that it will be subject to no great change at least in 1950. Finally, we have average stock yields about two and a half times greater than the prevailing yields on high-grade bonds.

Imponderables

If this is bullish ammunition, there is nothing exciting or dynamic about it. If we can have a major bull market primarily because dividend yields are considerably higher than bond yields—and because of two negatives: i.e., business and earnings are not now subject to more than moderate decline—it will be the first such in history. There are a variety of imponderables on the restraining side, which is why stock yields are still relatively high. The greater the long-term uncertainty and risk, the higher must yields be to compensate for it. It should not be necessary to say that the capitalist class, and especially the equity investor, face a real long-run threat from left-of-center political tendencies in this country, from insatiable grabs by the labor unions; and from the cold war which nobody can guarantee will not become hot.

But there are also factors which may be considered as militating against any severe market break at this time. There have been no particular speculative excesses, as we know; the low-priced stocks have been lagging rather than leading in the market upswing which was largely paced by investment type issues. There has been no rampant margin trading, though brokers loans latterly have been on the increase. And anyhow, a 50% margin is a different proposition than the 10% back in the Twenties. Moreover, much stock has been bought for cash, and with investment aims primarily in view, thus can be presumed to be in firm hands despite the undoubted distribution that has occurred in recent months.

Investment trust buying has probably been a sustaining factor and is likely to continue so. And the possibility that pension funds may be allowed to invest in part at least in common stocks may also act as a psychological cushion to decline and bearish thinking; potentially at least, such investing could assume impressive proportions. Then there is the big short interest, another cushion.

On the other hand, any substantial further advance would seem to require far greater speculative activity and participation than recently seen. But if the market remains largely an investment-dominated one, further rise, if any, figures to be on the moderate side; and at a slower and slower average rate. In this case our broad weekly indexes would remain relatively sluggish; and reactions would not go very far. We do not see a present basis for a revival of broad public speculation; but concede that its development is not impossible. Therefore, it will bear watching. That is one way, maybe the only way, the pace can be quickened. However, should speculation increasingly take over, there would be new and greater hazards to reckon with. Meanwhile, there is no change in our conservative policy. As a general rule, we advise deferring new purchases of common stocks and emphasizing quality in existing holdings.

—Monday, March 20.

BOOK REVIEWS

AUTHORITARIANISM AND THE INDIVIDUAL

By Harold Metz and C. A. H. Thomson

The whole world is torn by a struggle over the basic principles underlying free societies and controlled societies. This is emphasized ever more crucially by the arguments of those within customarily free societies who would give aid and comfort to the philosophies of the dictators, as oposed to those who hold to the values and principles of freedom for all individuals.

Since controlled societies and free societies differ pre-eminently in their view of the value, position, and role of the individual in his relationship to society it is important to examine how controlled societies treat the individual in his relationship to the group as a whole. In what ways have authoritarian states attempted to subjugate and subordinate the individual to the group as a whole? What are the basic principles on which such societies have sought to extend public control over the individual?

Recent authoritarianism movements such as communism and naziism attempted a more thorough pulverization of the individual than did the early counterparts such as feudalism and the absolute monarchies. What made this possible and what have been its results for the individual?

The Brookings Institution $3.50

DISASTER THROUGH AIR POWER

By Marshall Andrews

Disaster Through Air Power is an angry book. It is a coldly angry book.

Marshall Andrews believes the country is being sold a bill of goods by the Air Force. He believes that *you* believe the third World War will be an easy war.

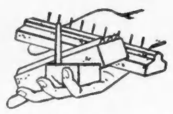
He believes thta you are being urged to feel that a few brave lads in the clouds will "pinpoint" selected objectives on the ground, and that then a few thousand troops will walk in and "clinch the peace.'

Marshall Andrews thinks there will be no peace to clinch. He is sure (and he documents his conviction) that if we rely on strategic bombing we shall lose all Europe, perhaps hamstring the western hemisphere, and certainly present world domination to Russia on a platter.

He also believes that even if we should win through to a stalemate, we shall have to clamber over ruins to our objective, and that the fruits of "victory" will be the necessity of spending billions to support the vanquished until they shall have reached stability. And that stability may well mean the launching of a war to total destruction.

His book is a strong and logical plea for the total destruction of the myth that there can be an easy victory through air power.

Rinehart & Company $2.00



Weighing the assets behind each share

Profit from 1950 Potentials in

LOW-PRICED STOCKS

Measuring earnings and dividends

Do low-priced stocks have any place in the investor's portfolio?

For the man with an ample retirement income—who can live comfortably on the interest from government bonds—the answer is "no." But, for the average investor who is still building toward financial independence—who needs capital growth to offset high living costs and taxes—the answer is decidedly "*YES.*"

The Investment and Business Forecast of The Magazine of Wall Street is designed to aid you as an investor. It is not offered to the in-and-out trader. But, because low-priced shares have *huge profit advantages*, especially during certain times, we have undertaken exhaustive studies with a view to using equities in the lower price ranges in *expanding the productive power of your capital.*

Now . . . A Complete, Supervised Program in Low Priced Shares for Large Percentage Profits

Low priced stocks vary just as much in quality and in profit and income prospects as do securities in any other price category. Some "cheap" stocks are not worth the few dollars at which they are quoted. Others are strong, undervalued growth situations with considerable intrinsic merit.

Convinced of the outstanding profits that well selected low-priced stocks offer, The Forecast devotes a complete program to such growth companies—strategically placed—which have realistically adjusted their positions to the 1950 outlook.

Our records show 3 to 1 gains in low-priced shares

Research through the years shows that the 100 most active low-priced common shares—which we have priced and charted weekly—outstripped the general market by more than 3 to 1.

Enroll Now for Our Low-Priced Stock Program

Join our discriminating clientele now to share fully in our 1950 program which we believe will add substantially to our profit record for, as opportunities develop, low-priced stocks of unusual promise will be definitely recommended.

Every stock selected is carefully supervised. You are kept up-to-date on all new developments regarding each company represented — and are never left in doubt as to the precise action to take. *Specific, unhedged advice tells you what and when to buy and when to sell.* In addition, your enrollment entitles you to consult us on your present holdings, 12 at a time, so your least attractive issues can be weeded out and the funds directed into our definite recommendations according to your capital and objectives.

Special Plan for a Rounded Program

To enable you to diversify, The Forecast also has a complete, supervised program devoted to top-grade stocks and good bonds for security of principal, 6% to 8% income, plus enhancement. The backlog of your funds should be used in this program.

Because only progressive companies are selected — fortified by excellent financial and competitive positions and with ample earnings to maintain dividend distributions — their capital enhancement will be spurred as investment demand becomes insistent. *We will advise you what and when to buy and when to sell . . . when to contract or expand your position.*

Recommendations in all three of our specialized programs are now being considered, so your subscription today will enable you to participate from the time they are initially made. By mailing the coupon below, therefore, you can enroll now . . . sell your weaker issues and benefit fully from Forecast Service.

Mail Coupon Today!

Special Offer

6 MONTHS' SERVICE **$60**

12 MONTHS' SERVICE **$100**

Complete service will start at once but date from May 1, Subscriptions to The Forecast are deductible for tax purposes.

FREE SERVICE TO MAY 1, 1950

3-25

THE INVESTMENT AND BUSINESS FORECAST
of The Magazine of Wall Street, 90 Broad Street, New York 4, N. Y.

I enclose ☐ $60 for 6 months' subscription; ☐ $100 for a year's subscription.

(Service to start at once but date from May 1, 1950)

SPECIAL MAIL SERVICE ON BULLETINS

Air Mail: ☐ $1.00 six months; ☐ $2.00 one year in U. S. and Canada.
Special Delivery: ☐ $4.00 six months; ☐ $8.00 one year.

☐ Telegraph me collect in anticipation of important market turning points . . . when to buy and when to sell . . . when to expand or contract my position.

Name..

Address..

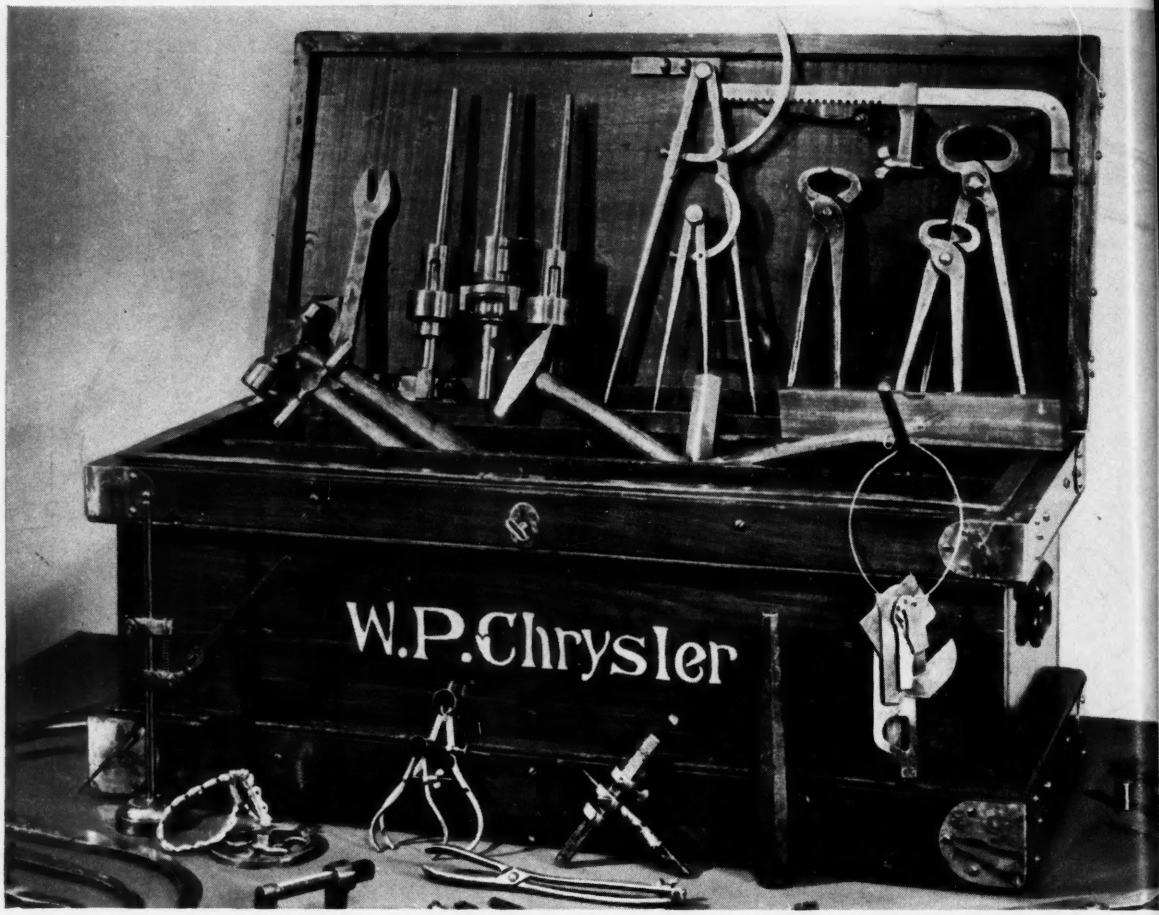
City.. State..

Your subscription shall not be assigned at any time without your consent.

List up to 12 of your securities for our initial analytical and advisory report.

Cumulative Index to Volume 85

Pages 1 to 48, inclusive, October 8, 1949
Pages 49 to 100, inclusive, October 22, 1949
Pages 101 to 152, inclusive, November 5, 1949
Pages 153 to 204, inclusive, November 19, 1949
Pages 205 to 256, inclusive, December 3, 1949
Pages 257 to 308, inclusive, December 17, 1949
Pages 309 to 356, inclusive, December 31, 1949
Pages 357 to 420, inclusive, January 14, 1950
Pages 421 to 480, inclusive, January 28, 1950
Pages 481 to 532, inclusive, February 11, 1950
Pages 533 to 588, inclusive, February 25, 1950
Pages 589 to 648, inclusive, March 11, 1950
Pages 649 to 708, inclusive, March 25, 1950



Walter Chrysler's original tool chest—on display in the Chrysler Automobile Salon, New York

The tools that money couldn't buy

Walter Chrysler made them himself. He was 17, working in a railroad roundhouse. His mechanic's fingers itched for a kit of tools of his own. So young Walter took steel and made his own.

As he shaped them, he shaped a dream as well. It was a special American kind of dream—free-ranging imagination anchored to solid things like common sense, working a little harder, making things a little better. And asking no odds of anyone.

It led Walter Chrysler to success in railroading when he was young. It led him to study the automobiles of the day. Why couldn't a man build *better* cars than any known—nimbler, safer, more comfortable, handsomer.

So, 25 years ago, Walter Chrysler introduced the first Chrysler car. What he did changed the whole pattern of American motoring. He changed it with high-compression engines, 4-wheel hydraulic brakes, all-steel bodies, new ways of distributing weight for better riding . . . many originations the entire automobile industry eventually followed.

As Mr. Chrysler's birthday, April 2nd, approaches and as Chrysler Corporation this year observes its own 25th anniversary, it is fitting to pay this tribute to Walter Chrysler and his creative genius.

And the tools of his earlier mechanic's days? I remember when he found them in his mother's house. It was long after he had asked me to work with him. He brought the tools back from Kansas. A few of them needed fixing and he asked me to fix them. It was a compliment I have never forgotten.

The qualities Mr. Chrysler put into his own tools still mark the great organization he founded. He built not merely material things; he inspired men with a zeal to carry on his splendid ideals.

Chrysler Corporation is still young enough to feel his inspiration. He wished this company always to be a producer of fine automobiles of great value.

And those of us who were privileged to work with him believe that the new Plymouth, Dodge, De Soto and Chrysler automobiles live up to his tradition.

It is a tradition uniquely American—to live and work with the idea of finding better ways to make what people want.

K T Keller, *President*

CHRYSLER CORPORATION

Fine Automobiles of Great Value PLYMOUTH DODGE DE SOTO CHRYSLER

Airtemp Cooling, Heating, Refrigeration **Chrysler** Marine & Industrial Engines **Dodge** Job-Rated Trucks **Oilite** Powdered Metal Products **Mopar** Parts & Accessories **Cycleweld**

n, New York

put into his
t organiza-
not merely
men with a
ideals.

still young
. He wished
producer of
lue.

privileged
at the new
nd Chrysler
radition.

American—
a of finding
eople want.

President

ION

CHRYSLER

s **Cycleweld**